

in real
20 YEARS IN RE MARKET

**LITHUANIAN ECONOMIC
AND RE MARKET
REPORT 2014-2015**



RAIDLA LEJINS & NORCOUS

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SUMMARY OF LITHUANIAN ECONOMIC AND RE MARKET REPORT 2014 - 2015

Residential segment

The RE market of 2014 was variable in Lithuania. The year started from a great optimism, but due to the military conflict between Russia and Ukraine the activity and optimism in the market started fading in the second half-year. It affected the segment of apartments the most, where in the second half-year of 2014 the amount of purchase-sale transactions has decreased by 4.8 percent, in comparison with the first one. It was the first time in the period of several years when a semi-annual decrease in the amount of transactions was registered in Lithuania. The highest decrease was observed in the major cities (Vilnius, Klaipeda, Siauliai and Panevezys) – from 8 to 18 percent. In this context, there was an exception in Kaunas, because the amount of transactions has remained stable over the second half-year. On the other hand, not all segments responded to the gloom. Opposite trends were developing in the segment of private houses, where, as predicted previously, the amount of purchase-sale transactions has been growing in the second half-year of 2014 – in comparison with the first half-year, the change reached 8.7 percent. It is forecasted that if such trends remain, the amount of apartment purchase-sale transactions will decrease by 10-12 percent in 2015 in comparison with 2014. Meanwhile, the demand in the segment of private houses will remain very strong. The statistics of land plot purchase-sale transactions also shows that the amount of purchase-sale transactions in the latter segment should not fall in 2015. During the second half-year of 2014 if compared with the first one, the increase in land-plot purchase-sale transactions, was reaching 7.5 percent; and 4.7 percent in residential land plot purchase-sale transactions. It shows that the residents intend to invest into private houses. Thus the future of this segment remains much more optimistic than that of apartments, where the broadening scissors of supply and demand may cut off the expected growth. Regardless of euro adoption and growing economics in the country, the developers will have to be ready for a fierce competition and look for the ways to promote the sales, etc. at least for one year, until the market recovers the balance between supply and demand. It is likely that the average prices of new construction apartments will decrease by up to 4 percent within this period.

Commercial segment

The trends in the commercial segment have remained positive. Regardless of the new modern business centres opened in Vilnius in 2014, which added 13,600 sq.m of rentable area to the market, vacancy rates in the segment of business centres has decreased from 5.1 to 4.0 percent. Active construction works of business centres are still going on in Vilnius; in 2015 they should supply the market with approx. 29,200 sq.m of Class A premises and 9,000 sq.m of Class B premises, however the majority of these premises should be occupied prior to the opening. Therefore the total vacancy rate in Vilnius should increase insignificantly in 2015. Since Class A business centres apply higher level of prices, it is expected that the average rent of Class A offices will increase by 6-9 percent; meanwhile as a result of increased migration of lessors the rents should remain stable in Class B business centres. Decreasing vacancies from 5.8 to 4.9 percent within a year and the growing demand of modern business centres in Kaunas allowed launching the construction works of new objects for lease after a several-year break – 2 new business centres are being developed. They will supply the market with approx. 4,500 sq.m of rentable area. Klaipeda was the only city, where 2 new modern Class A business centres made the vacancy rate rise from 11.7 to 13.1 percent.

After a several-year break, in 2014 there were five shopping centres (with the area exceeding 5,000 sq.m each) opened in Vilnius, Kaunas and Klaipeda – they supplied the market with 35,100 sq.m. Currently, there are 3 shopping centres being developed or planned and one shopping centre is planned to be expanded; it will result in additional 40,600 sq.m in the market of shopping centres in Lithuania. The conditions for the development of new shopping centres are resulted by the consistent growth of consumption in the country, as well as the expected further economic growth and increase in personal income in the country. A new trend is observed – the development of retail parks is becoming more active. This is a new concept popular in Western Europe, which focuses on a fast and convenient shopping. Currently, 3 projects of this kind are being developed – Parkas Outlet is expanding, what will result in additional 3,000 sq.m area in the retail park; moreover, retail premises covering about 40,000 sq.m are planned to be opened near IKEA.

Somewhat inconsistent moods were observed in the segment of warehousing and industry premises. The major challenges are related to the sanctions applicable by Russia, which made some Lithuanian carriers and manufacturers change their plans. The demand of new logistics premises, which was very high in the capital city in early 2014, subsided, thus new projects are being developed much more carefully. In 2014 there were two logistics centres built in Vilnius, which supplied the market with approx. 18,500 sq.m of rentable area. In 2015, the logistics centre "Arvydo Paslaugos II" with an area reaching 8,500 sq.m will be finished in the capital city. Large logistics centres are also being built in Kaunas, but they will be built to suit, while significant projects for lease have not been developed in the end of 2014. In 2014 two logistics centres were opened in Klaipeda, which supplied the market with approx. 33,800 sq.m of modern area for warehousing. One more logistics centre covering about 13,000 sq m. area is expected to be built in 2015. Rents in the segment of logistics centres have remained stable over 2014.

Regardless of the decrease in tourist flows from Russia, the occupancy rates of Lithuanian airports and hotels continued to grow in 2014. The three international airports in Vilnius, Kaunas and Palanga altogether serviced 3.8 million passengers over 2014 – i.e. by 10.2 percent more than in 2013, and the average occupancy rate of hotels has been record-breaking and reached 48 percent. The improving tourism rates allowed the segment of hotels to grow in Lithuania – in 2014, at least 6 new hotels were opened in Lithuania, which offered about 260 rooms in total. There are no intentions to stop the progress in 2015 – it is expected to supply the market with up to 10 new hotels.

Current issues of law

2014 was the year of changes - significant, systematic territorial planning and construction regulatory amendments entered into force. Other issues, important to the RE market and related to land and taxes, have not been left aside as well. 2015 was welcomed by legal regulation with further novelties – amendments related to the partnerships between the public and private sectors entered into force, and new requirements for transactions in shares were established.

The significant changes in legal regulation, relevant for the RE market, which have entered into force and were adopted last

year, affected the most important issues in the RE market: territorial planning and construction, land acquisition, RE transaction, and tax environment. Although the legislator sought to facilitate the burden to the RE market participants, and to ensure greater transparency of transactions and construction works of territorial planning as well as the simplicity of procedures, however it has brought confusion and legal uncertainty for a short period as well – i.e. how the newly adopted provisions should be assessed and applied. In the upcoming period, one should expect that the abovementioned legal uncertainty will be dissipating – work experience will occur, which, along with the regulation of the partnership between the public and private sectors applicable from 2015, will create wider opportunities of investing into RE market and will promote the development of this market.

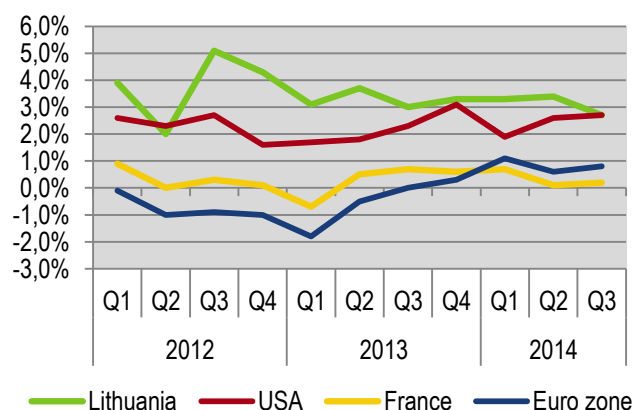
REVIEW OF LITHUANIAN ECONOMY

Lithuania has successfully finished the preparatory works and became the member of the euro area from 2015. In fact, the progress of the Community economy seems to be unsecured, and there are difficulties in dealing with the challenges. These may include high level of unemployment, critically low inflation in the countries belonging to the euro-area and different paces of their development. In the end of 2014 the Greek situation returned to the top of issues – Greece will face with political changes over the upcoming year, which may intensify a negative climate in the euro-area. On the other hand, the leading countries of the region are not secured from the economic slowdown as well. As an example, in 2014 the GDP growth rate in France (the second economy in the euro-area, according to its size) was lower than the average rate in the Community, and the unemployment rate had reached the record-breaking level of 10.4 percent in August. A completely opposite climate is prevailing over the Atlantic Ocean – in 2014 the USA economy has showed a solid increase, recorded new peaks in the number of new jobs, and some other economic rates exceeded the expected rates. In comparison, in the end of 2014 the unemployment rate in USA was 5.6 percent.

In 2014 the focus shifted to Russia – at first, everybody focused on the military conflict between Russia and Ukraine, and later on the financial turmoil, which started in the country. The sanctions, initiated to Russia by Western countries, as well as the oil price, which has fallen to level, unseen for many years, are identified as the main causes, which resulted in the economic contraction in Russia. The GDP rate in Russia has increased by up to 0.6 percent within 2014 rather than 2-3 percent, as was expected in early 2014, meanwhile the country started the year 2015 along with the moods of recession. It reflected in the significant decrease of the Rouble value in the end of the year – over the last four months of 2014 the Rouble had lost 30 percent of its value against the Euro, thus impeding possibilities for Russians to acquire foreign goods. The decision of the Central Bank to significantly increase the base interest rate did not help obtain the control over the situation – market participants assessed this step as a sign of government desperation.

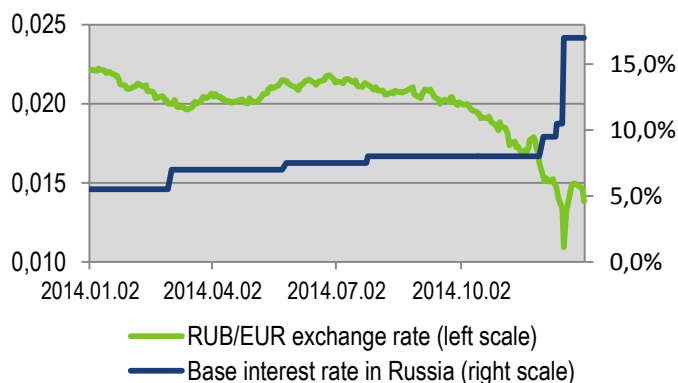
The fall of oil prices in the end of 2014 from 110 to 60 USD has been painful for Russia and other oil-exporting countries, but it gave additional impulse for the development in the oil-importing countries. Decreasing oil prices result in reallocation of benefit in the global market – it is more actively transferred from oil-extracting countries to oil-consuming countries. Although the decrease in the raw material price affects each country differently, the calculations show that general effect, resulting from this decrease, is positive for the global market. For example, according to Oxford Economics, the decrease of oil prices by 20 USD increases the global GDP rate by approx. 0.4 percent within 2-3 years. However, due to the prevailing deflation in Europe the effect, resulting from low oil prices in the region will possibly be less – consumers will allocate the major share of money, remaining due to low oil prices, for saving rather than spending.

Annual GDP growth rate (percent)



Source: Eurostat

RUB/EUR exchange rate and base interest rate in Russia in 2014



Source: International monetary fund, The Central Bank of Russian Federation

In 2014 Lithuanian economy has remained one of the most rapidly growing countries in the European Union. Further prospects also remain optimistic; however they will highly depend on the external factors as well. The annual GDP growth rate in Lithuania reached 2.7 percent in the third quarter and was one of the most rapid in the region. The financial status of households in the country is improving moderately, public finances are in good condition, a low deficit of the current account is being maintained, and more active flows of direct investment are expected along with the Euro adoption. On the other hand, the opportunities for the economic development in the country will highly depend on the external factors, including market recovery in the euro-area, crisis-related problem solving in Russia, and future policy as regards sanctions applicable to this country, as well as changes in oil prices. The above mentioned factors are assessed differently by various institutions, therefore the expected economic rates in Lithuania differ. Nevertheless, it is likely that the GDP in Lithuania should grow by 2.5-3.5 percent in 2015.

The uncertainty, prevailing in the East as well as in the West, has also influenced Lithuanian consumer expectations, which decreased in the second half-year of 2014. They showed that consumers have become more rigid when assessing their future, respectively put more money for saving and less for spending, and have become more careful when selecting larger purchases. It has also reflected in the real estate market, which became much less active in the second half-year. On the other hand, not all market participants started assessing the future reservedly – the Construction Confidence Index, which evaluates the climate in the companies operating in this sector, has maintained the trend of growth over the entire 2014 with regard to seasonality. As a result, one can state that different opinions of real estate purchasers and sellers on the future have been observed.

Crediting has remained careful in Lithuania, regardless of the fact that banks continue to offer opportunities to borrow cheaper. According to the data of the Bank of Lithuania, the amount of credits issued in Lithuania in 2014 was 3.5 billion EUR, i.e. by 17.6 percent more than in 2013, meanwhile in 2014 the average interest rates have remained low both in Litas and Euro. Improving financial status of consumers and companies allows investing from own funds, meanwhile the uncertainties in external market also function as a factor, impeding the issuance of new loans – some

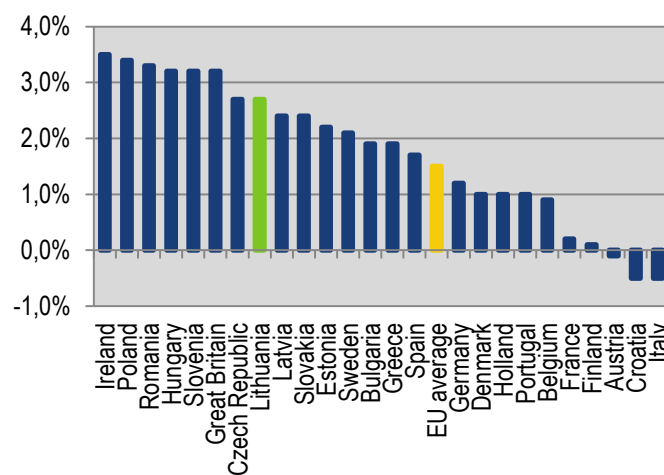
companies revise or postpone investment projects, while people resist from long-term liabilities.

„Brent“ oil price (US dollar/ bbl)



Source: EIA

Annual GDP growth in Q3 2014 (percent)



Source: Eurostat

Lithuanian GDP growth forecast for 2015

Institution	Forecast*, percent
Oxford Economics	3,6
Ministry of finance	3,4
Bank of Lithuania	3,3
European commission	3,1
SEB bank	2,6

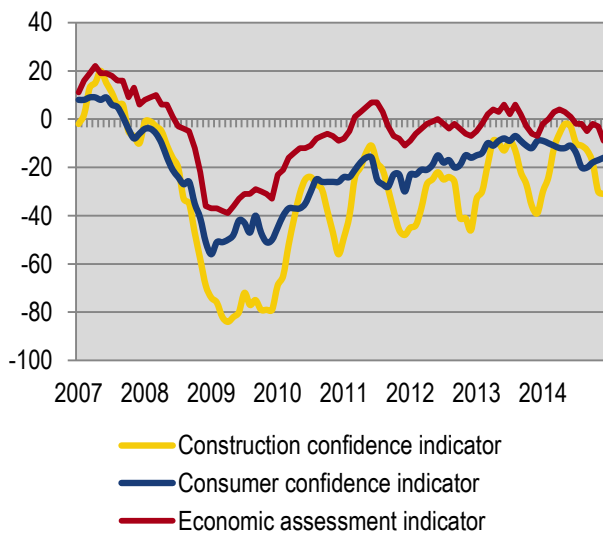
* 2015 january forecast

Source: Oxford Economics, Ministry of finance, the Bank of Lithuania, European commission, SEB

The economic situation in Lithuania remains favourable for the housing market to grow, however it also needs favourable external factors. Moderately-improving financial status of households in the country and favourable crediting conditions are the essential reasons, which promote acquisitions in the RE market. On the other hand, the uncertain economic recovery in the euro-area and Russia, which has been facing with the financial challenges, did not allow the expectations of the Lithuanian consumers to swell up in 2014, and these external factors will have significant influence on the economic capacities as well as the real estate market in the country in 2015.

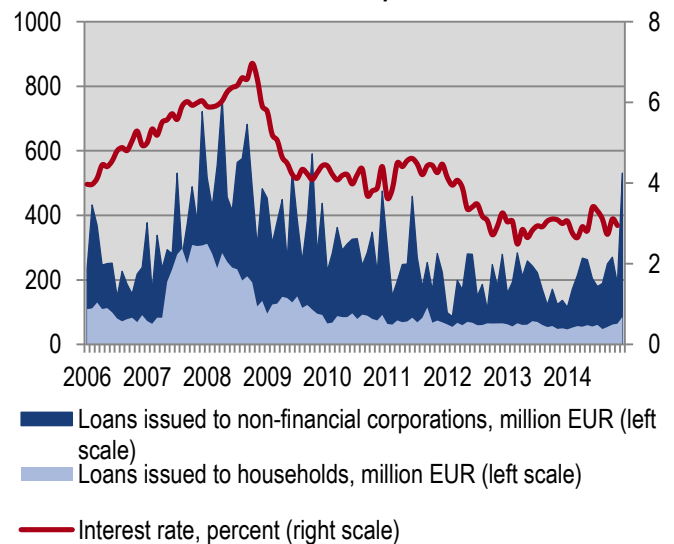
The economic situation in Lithuania remains favourable for the housing market to grow, however it also needs favourable external factors. Moderately-improving financial status of households in the country and favourable crediting conditions are the essential reasons, which promote acquisitions in the RE market. On the other hand, the uncertain economic recovery in the euro-area and Russia, which has been facing with the financial challenges, did not allow the expectations of the Lithuanian consumers to swell up in 2014, and these external factors will have significant influence on the economic capacities as well as the real estate market in the country in 2015.

Construction, consumer confidence and economic assessment indicators



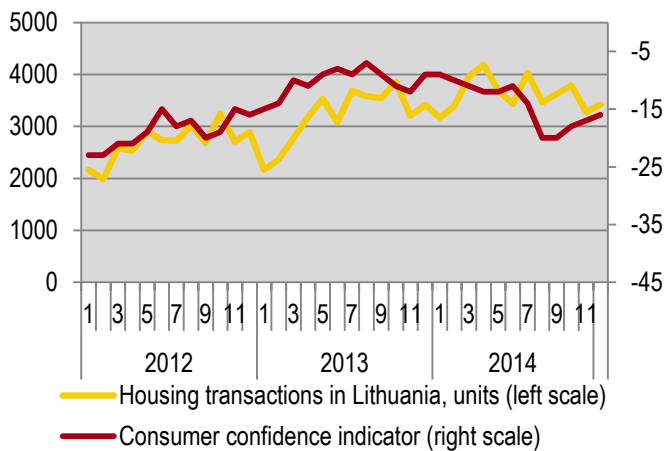
Source: Department of statistics

New loans issued to non-financial corporations and households



Source: Bank of Lithuania

Consumer confidence indicator and housing transactions in Lithuania



Source: Department of statistics, SE Centre of Registers

HOUSING MARKET REVIEW

In 2014, the housing market became more active in Lithuania; however the growth has not been moderate – during the second half-year it has fizzled out, but the strong first half-year was sufficient to register a solid annual growth. Such fluctuations of sales result in serious challenges to the real estate developers, who have difficulties in evaluating the future market needs. Nevertheless, in 2014, many developers resolved to develop their projects, allowing a more significant misbalance between supply and demand to form in some segments. As a result and regardless of the euro adoption, economic growth and growing income of residents, further increase in prices of new construction apartments in Vilnius is not expected for 2015. In turn, the markets in other cities highly depend on the trends expressed by Vilnius market, thus the slowdown in the housing market is likely in other cities as well – as a result, RE prices there will remain stable or will change insignificantly.

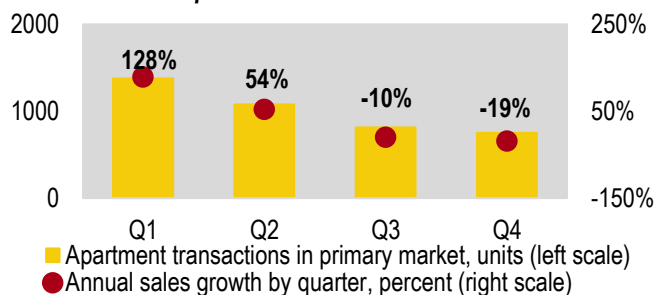
In accordance with the data of SE Centre of Registers, in 2014 the amount of apartment purchase-sale transactions has increased in Lithuania – it reached 30,622 transactions, i.e. by 13.2 percent more than in 2013. An even more significant growth was registered in the primary market sales – new construction apartment sales in Vilnius, Kaunas, Klaipeda, Palanga and Neringa, altogether, amounted to 4,030 and was by approx. 28 percent higher than in 2013.

Nevertheless, one should take into account that in 2014 the purchasers were not moderately active in the RE market, meanwhile the whole year can be divided into two parts: the first half-year, when the market was full of optimism, and the second half-year, when the previous activity has slowed down. It perfectly reflects in the sales of new construction apartments in Lithuania – approx. 60 percent of total sales was registered in the first half-year, and the remaining 40 percent – in the second.

In 2014 the implementation of 114 multi-dwelling projects launched in order to equip 6,120 new apartments – i.e. approx. by 91 percent more than in 2013. The majority of new construction apartments, amounting to almost 80 percent, were

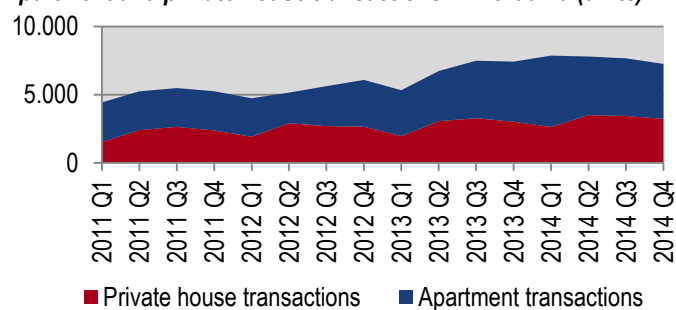
offered in the capital city.

New construction apartment sales in Lithuania in 2014*



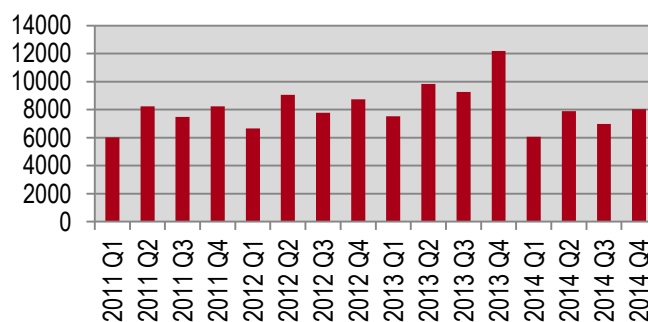
*Sales are calculated in Vilnius, Kaunas, Klaipeda, Palanga and Neringa.
Source: Inreal

Apartment and private house transactions in Lithuania (units)



Source: SE Centre of Registers

Land plot transactions in Lithuania (units)



Source: SE Centre of Registers

Exhilaration has also prevailed in the private house segment in Lithuania. In accordance with the data of SE Centre of Registers, in 2014 there were 12,805 transactions concluded in the private house segment in Lithuania – i.e. by 13.0 percent more than a year ago. The sales in the private house segment as well as in the apartment segment have decreased in the second half-year of 2014.

In 2014, the volumes of land plot purchase-sale transactions decreased, in comparison with 2013, and it can be related to

the strengthened law on agricultural land acquisition, which made the alternative of long-term lease become much more popular. In accordance with the data of SE Centre of Registers, there were 28,978 land plot purchase-sale transactions registered in Lithuania in 2014 – i.e. by 24.3 percent less than in the previous year. It should be noted that the number of transactions has significantly decreased in peripheries more, however in 2014 the increase in land plot purchase-sale transactions was registered in the major cities and their regions. The main reason for this was an active construction of private semi-detached houses and cottages.

Housing market in Vilnius

In accordance with the data of SE Centre of Registers, there were 30.7 percent of all apartment purchase-sale transactions registered in Vilnius in 2014. The total annual amount of transactions concluded in the capital city in 2014 was 9,414 – i.e. by 11.0 percent more than in the previous year. The annual increase in transactions in the housing market in Vilnius was registered regardless of the decrease in apartment sales in the last quarter of 2014, which was 6.0 percent.

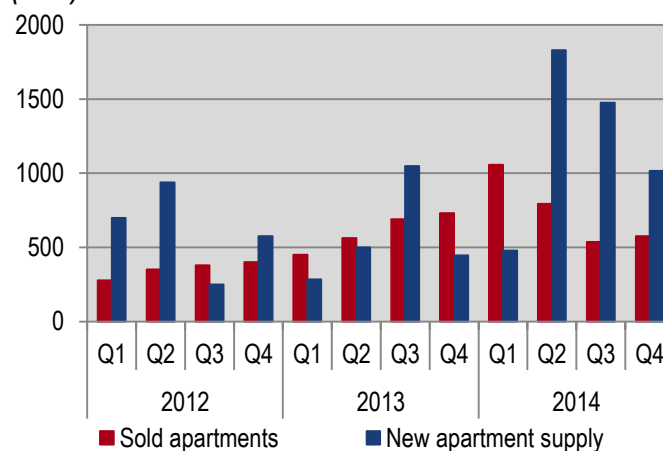
An even more significant negative change in sales in the end of 2014 was registered in the primary market in Vilnius. During the last quarter of 2014 the number of new construction apartments sold in the capital city was less by 21 percent than in the corresponding period of 2013. As a result of high apartment sales rates in the first half-year, the final result of 2014 included significant increase – about 2,960 new construction apartments were sold in a year, i.e. by approx. 22 percent more than in 2013.

More rigid purchasers resulted in the decline in apartment acquisitions in the second half-year, however the supply of new construction apartments has been further increased by the developers of the accelerated RE projects. In the last quarter of 2014, there were 1,020 new construction apartments offered in the market – i.e. by approx. 2.3 percent more than in the corresponding period last year. Over the whole 2014, the market of the city was supplemented with 72 new multi-dwelling projects and the total annual supply was higher by approx. 2.1 percent in comparison with 2013 – i.e. 4,800.

The supply of new construction apartments, which exceeded the demand, has inevitably increased the number of

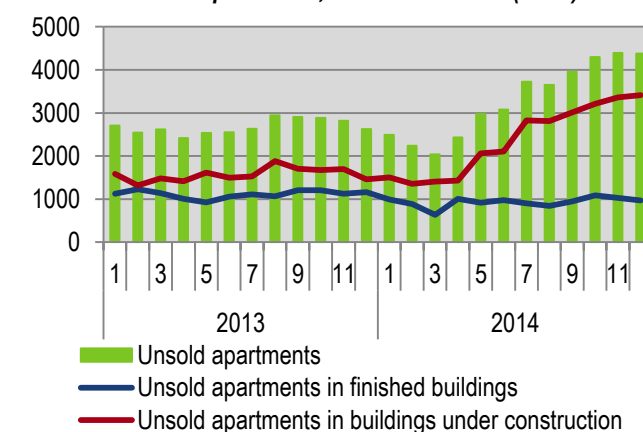
apartments unsold in the market. In 2014, this number increased in Vilnius by about 2.4 times – up to 4,380. In the end of 2014, approx. 22 percent of them were offered in the already finished multi-dwelling projects, and the remaining ones were offered in the ongoing projects. It should be noted that the number of unsold apartments in finished apartment houses has remained stable over 2014, however the increase in the number of apartments unsold in the ongoing projects was significant, and it is likely that their developers will not manage to sell them till the end of construction, thus the number of unsold apartments in finished apartment houses will inevitably grow in 2015.

Dynamics of the new supply and sales of apartments in Vilnius (units)



Source: Inreal

New construction apartments, unsold in Vilnius (units)



Source: Inreal

The scissors of demand and supply emerging in Vilnius had influence on the liquidity rate of new construction apartments as well. The rate was growing gradually up to 1.5 over 2014. It means that current supply of new construction apartments in the capital city could be sold out in approx. 1.5 year, however

this rate will deteriorate over the year and may reach from 1.7 to 2.4 in the end of 2014. It means that tension and competitive struggle will grow among developers, and in turn it will allow adjusting the prices.

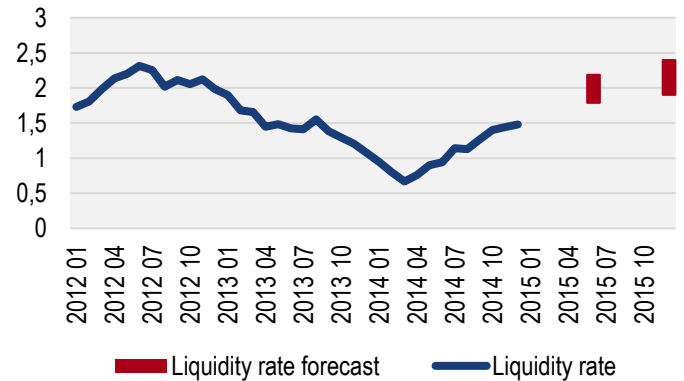
In 2014, the economic class apartments were the most popular in Vilnius – the share of this segment among total sales reached 53 percent. Middle-class apartments in the primary market in Vilnius amounted to 42 percent, and the luxury-class apartments – to the remaining 5 percent.

Nevertheless, the distribution of new construction apartments under the segments was not equal in 2014 – in the first quarter the economic-class apartments made up approx. 68 percent of total sales, meanwhile in the last quarter – just 35 percent. Such change in the rate was resulted by remaining stable sales of middle- and luxury-class apartments over the year, however the activity of economic-class purchasers has significantly decreased in the second half-year. It should be associated with the reduced future expectations and willingness to take housing loans due to the increased future uncertainty.

Regardless of growing supply of new construction apartments and decreasing liquidity rate, the prices in the primary market in Vilnius have not decreased in 2014. In the end of 2014, the total average price level of new construction apartments in the capital city reached about 1,540 EUR/sq.m and has increased by approx. 4 percent over the year. In the end of 2014, the asking price of economic-class apartments in Vilnius was by approx. 1 percent less than a year ago – the average price was 1,210 EUR/sq.m. The average asking price of middle-class apartments increased by approx. 4 percent and reached 1,690 EUR/sq.m. The asking prices of luxury-class housing have remained almost unchanged over the last year – approx. 2,540 EUR/sq.m in the end of 2014.

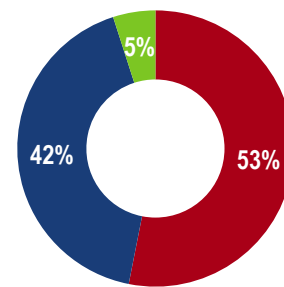
The moderate increase in transactions in the private house segment, which started in early 2013, has remained in 2014 as well. In accordance with the data of SE Centre of Registers, there were 1,489 private house purchase-sale transactions concluded in Vilnius city in 2014, i.e. by 42.6 percent more than in the previous year. The increase in private house purchase-sale transactions was observed in Vilnius region as well, where 637 transactions were concluded in 2014 – i.e. by 26.1 percent more than a year ago.

Liquidity rate of new apartments in Vilnius



Source: Inreal

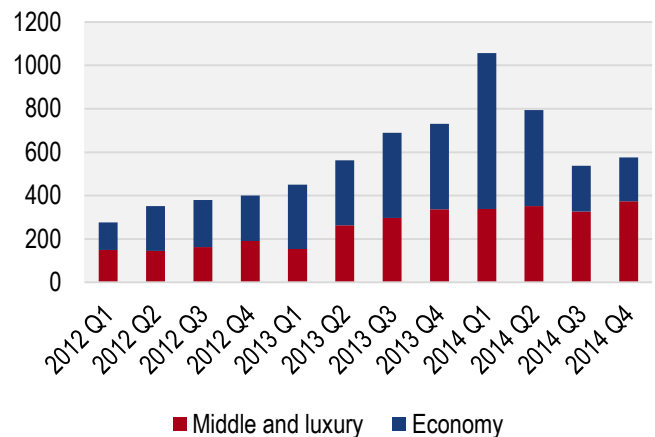
Apartment sales under classes (percent)



■ Economy class ■ Middle class ■ Luxury class

Source: Inreal

New apartment sales under classes (units)

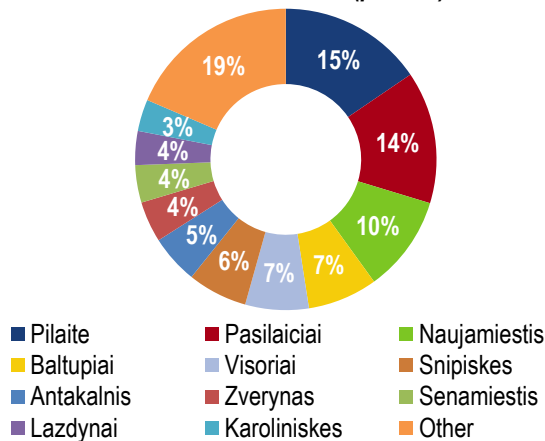


Source: Inreal

In accordance with the data of SE Centre of Registers, the volumes of land plot purchase-sale transactions in Vilnius and its region have increased over 2014. The number of transactions concluded in the capital city reached 1,313 and 1,944 in Vilnius region. In comparison with the previous year,

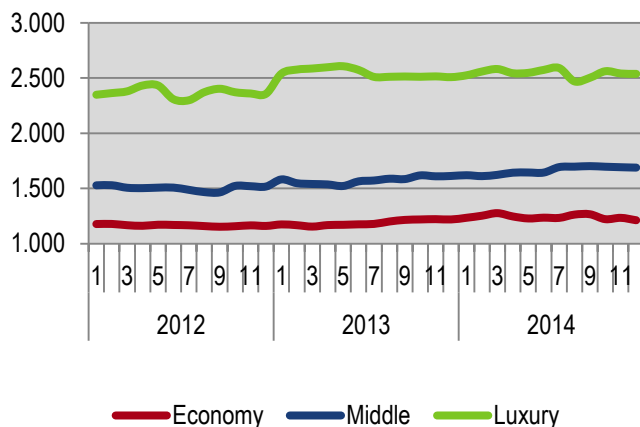
the number of transactions registered in Vilnius was higher by 8.6 percent and by 0.5 percent in Vilnius region.

Apartment sales under urban districts (percent)



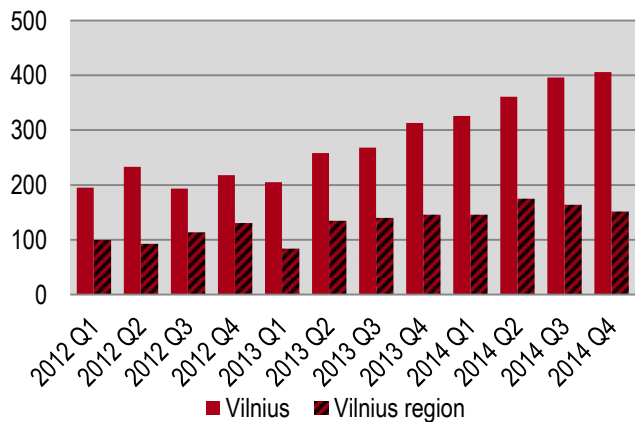
Source: Inreal

Average prices of apartments under classes in Vilnius (EUR/ sq m)



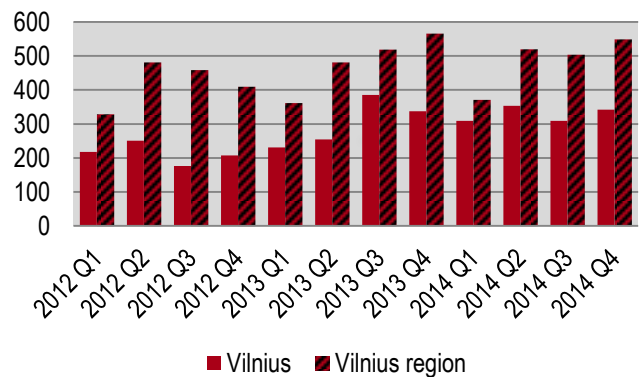
Source: Inreal

Private house purchase-sale transactions in Vilnius and Vilnius region (units)



Source: SE Centre of Registers

Land purchase-sale transactions in Vilnius and Vilnius region (units)



Source: SE Centre of Registers

In 2014, the residential land plot transactions were prevailing in the capital city – they made up approx. 54 percent of all purchase-sale transactions; and the share of agricultural land plot transactions reached 24 percent. Meanwhile the agricultural land plot transactions were prevailing in Vilnius region, and made up approx. 48 percent. In 2014, the share of residential land plot transactions in the region was approx. 44 percent.

Housing market in Kaunas

In accordance with the data of SE Centre of Registers, there were 4,208 apartment purchase-sale transactions concluded in Kaunas in 2014 – i.e. by 20.5 percent more than in the previous year. Unlike in the capital city, the number of apartment purchase-sale transactions concluded in Kaunas was increasing – 982 transactions were concluded, i.e. by approx. 5 percent more than in the corresponding period in 2013.

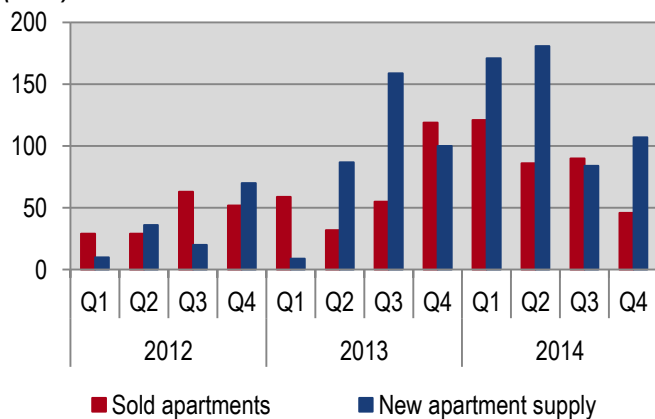
Meanwhile, the purchasers in the primary market in Kaunas were more rigid in the end of 2014. During the last quarter there were 46 new construction apartments sold in Kaunas, i.e. by 2.6 times less than in the corresponding period last year. Nevertheless, the final result of 2014 has significantly remained positive – about 340 new construction apartments were sold in the whole year, i.e. by approx. 29 percent more than in 2013.

In 2014, the supply of new construction apartments was growing more than sales. In a year, there were about 540 apartments offered in the primary market in Kaunas, i.e. by approx. 53 percent more than in 2013. In 2014, there were 17

new multi-dwelling projects started in Kaunas. The supply of new construction apartments, which exceeded the demand, resulted in the increased number of unsold apartments in 2014. It reached 640 in the end of the year, i.e. the annual increase was approx. 46 percent.

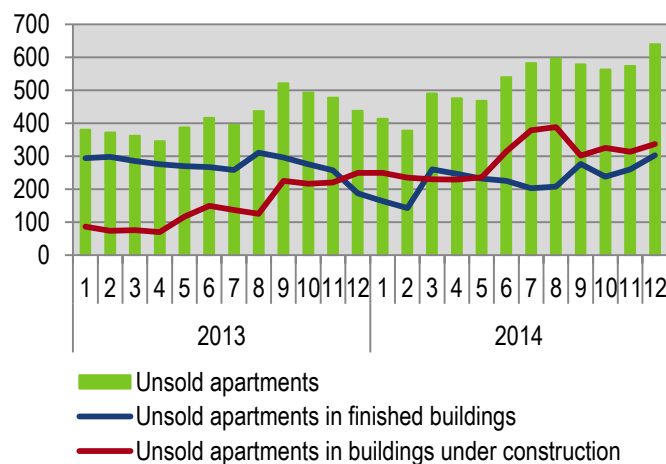
The misbalance between the supply and demand in Kaunas city influenced the liquidity of new construction market as well – it amounted to approx. 1.4 in almost the entire year, but increased up to 1.9 in the end of 2014. Taking into account this rate, one can state that the existing supply in the city could be sold out over the period of 1.9 year. It is forecasted that the value of this rate should continue to grow and reach from 2.4 to 4 in late 2015. It is a sign of growing competitiveness in the market of new construction apartments in Kaunas in 2015, therefore there are limited reasons for prices to grow in Kaunas.

Dynamics of the new supply and sales of apartments in Kaunas (units)



Source: Inreal

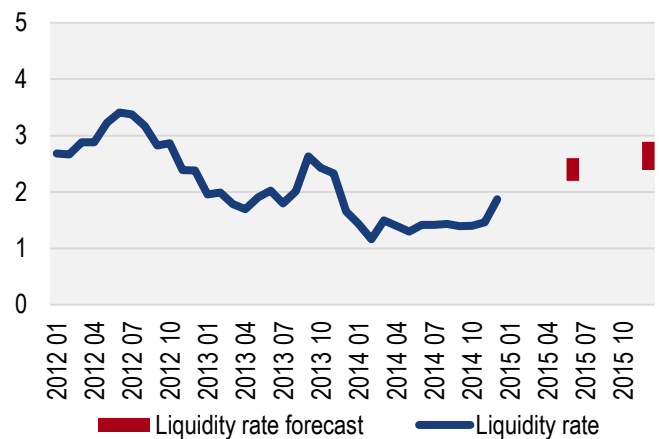
New construction apartments, unsold in Kaunas (units)



Source: Inreal

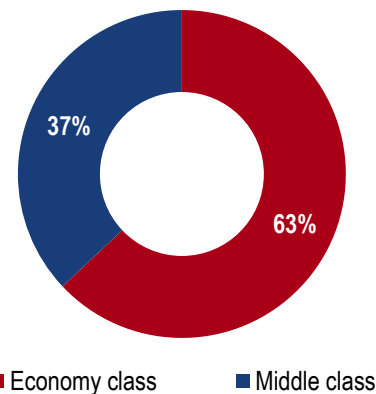
The economic-class new construction apartments remained the most popular in Kaunas. They made up approx. 63 percent of all new construction apartments sold in Kaunas in 2014, and the remaining 37 percent was the middle-class apartments.

Liquidity rate of new apartments in Kaunas



Source: Inreal

Apartment sales under classes (percent)

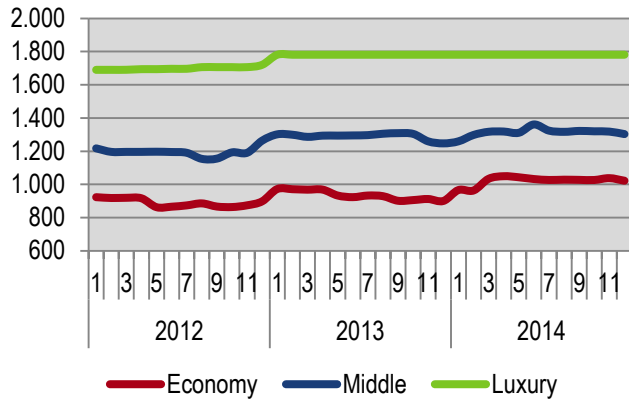


Source: Inreal

In the end of 2014, the average asking price of economic-class new construction apartments in Kaunas was 1,020 EUR/sq.m, i.e. by approx. 13 percent more than a year ago. The prices of new construction apartments in the middle-class segment have increased by approx. 4 percent over the year, i.e. up to 1,300 EUR/sq.m. The supply of economic-class apartments, which was growing in Kaunas in 2014, resulted in low influence of the middle-class segment to the total price level of new construction apartments in the city – it has increased by approx. 4 percent over the year and reached 1,110 EUR/sq.m.

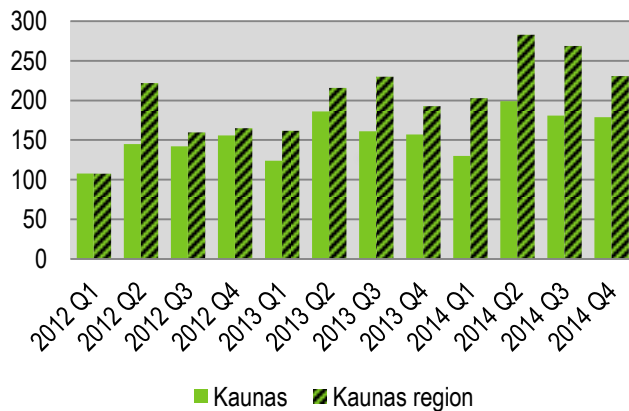
In accordance with the data of SE Centre of Registers, in 2014, the sales of private houses in Kaunas city reached 689, i.e. by 9.5 percent more than in the previous year. The volumes of private house sales in Kaunas region were increasing more – respectively, by approx. 23 percent and reached 986.

Average prices of apartments under classes in Kaunas (EUR/sq.m)



Source: Inreal

Private house purchase-sale transactions in Kaunas and Kaunas region (units)



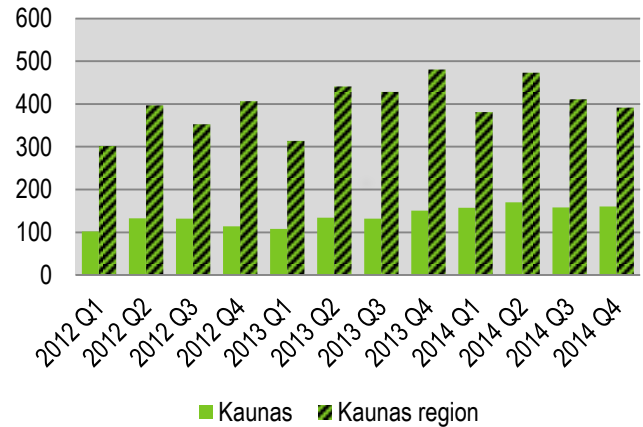
Source: SE Centre of Registers

In accordance with the data of SE Centre of Registers, in 2014, there were 645 land plot purchase-sale transactions concluded in Kaunas, i.e. by 22.9 percent more than in 2013. Meanwhile, the number of land plot purchase-sale transactions in Kaunas region has remained unchanged - it was lower by 0.4 percent than in the previous year.

In 2014, the majority of purchase-sale transactions in Kaunas city was concluded on residential land plots, i.e. approx. 66 percent. Meanwhile, the share of residential land plot transactions in Kaunas region reached approx. 37 percent. In

2014, agricultural land plot transactions in Kaunas city and region made up 6 and 42 percent, respectively.

Land purchase-sale transactions in Kaunas and Kaunas region (units)



Source: SE Centre of Registers

Housing market in Klaipeda

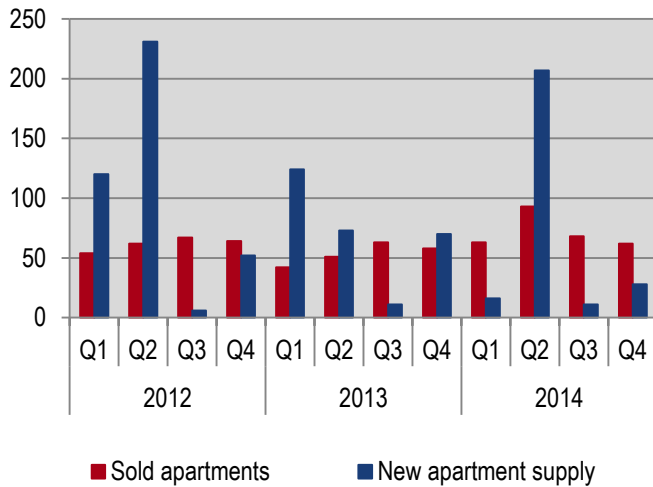
In accordance with the data of SE Centre of Registers, in 2014, there were 2,922 apartment purchase-sale transactions concluded in Klaipeda city, i.e. by 8.4 percent more than in the previous year. The volumes of apartment sales in Klaipeda, as well as in other major cities, decreased in the end of 2014 – there were 617 purchase-sale transactions concluded in the last quarter, i.e. by 11.6 percent less than in the corresponding period in 2013.

On the other hand, Klaipeda city had peculiarities as well. Unlike in Vilnius and Kaunas, the sales of new construction apartments in the primary market in Klaipeda was growing by approx. 7 percent in the last quarter of 2014 and reached 62 sold apartments. In fact, if compared with the secondary market of apartments, this segment was not significant, therefore it had no significant influence on the total results of apartment transactions. In 2014, the total number of new construction apartments sold in Klaipeda was 286 – in comparison with 2013, the increase of approx. 34 percent was observed.

The supply of new construction apartments in Klaipeda also differs from other major cities – in 2014, there were about 260 new apartments offered in nine new multi-dwelling projects, developed in the port city, meanwhile, the new supply, which

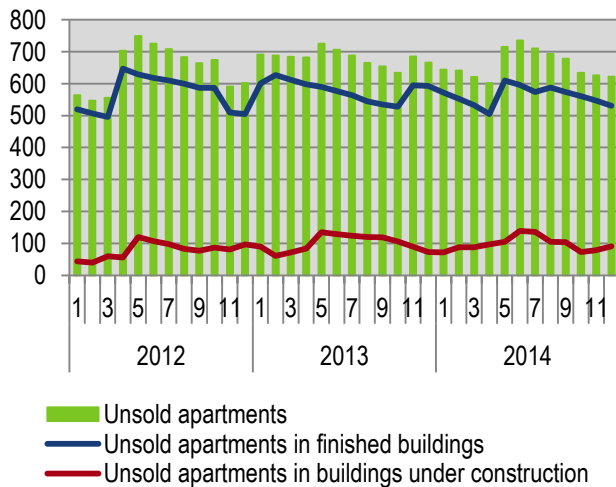
emerged in 2013, reached about 280 – i.e. the decrease of approx. 6 percent was observed.

Dynamics of the new supply and sales of apartments in Klaipeda



Source: Inreal

New construction apartments, unsold in Klaipeda (units)



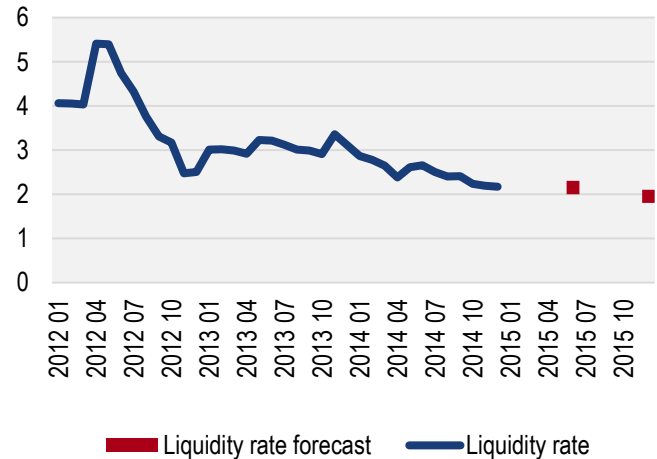
Source: Inreal

The peculiarity of Klaipeda market was also observed, when analysing the number of unsold apartments, which reached about 620 in the end of 2014 and was by approx. 7 percent less than a year ago. The distribution of unsold new construction apartments in Klaipeda has remained similar throughout the year – 85 percent in already finished multi-dwellings, and the remaining 15 percent in ongoing projects.

The sales, which exceeded the supply of new construction apartments in Klaipeda, resulted in the decreased liquidity rate. In the end of 2014, the liquidity rate of new construction

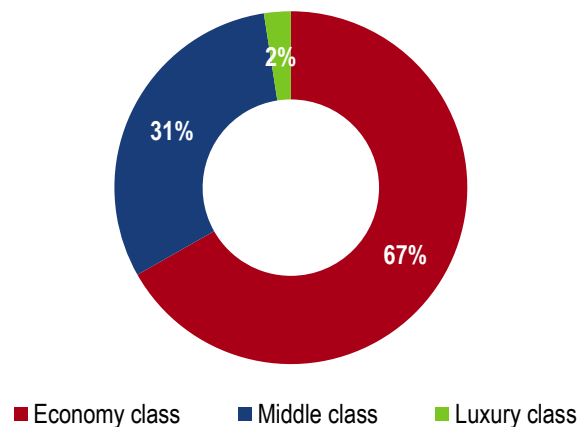
apartments was 2.2, i.e. the entire existing supply in Klaipeda could be sold out within 2.2 years. For comparative purposes, this rate reached 3.1 in late 2013. It is forecasted that in 2015 this rate will remain stable and in the end of the year will reach from 1.8 to 2.2. The sales of new construction apartments continue to improve in Klaipeda; a small number of apartments is offered in the market, and the competition among the RE developers should remain moderate. Therefore, the level of new construction apartment prices is likely to remain stable in 2015.

Liquidity rate of new apartments in Klaipeda



Source: Inreal

Apartment sales under classes (percent)



Source: Inreal

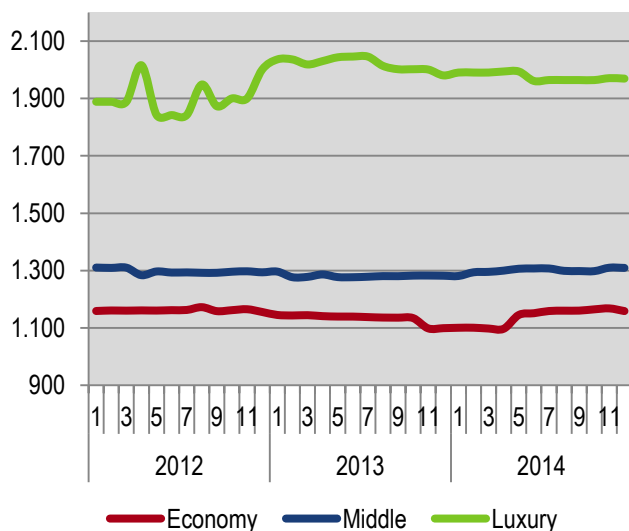
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According to the sales, the economic-class new construction apartments remained the most popular in Klaipeda and made up approx. 67 percent of all transactions concluded in 2014. The share of the middle-class apartments was 31 percent, and 2 percent – luxury-class.

The average price of new construction apartments in Klaipeda reached 1,250 EUR/sq.m in the end of 2014, i.e. by 3 percent more than a year ago. The level of asking prices for the economic-class apartments has increased the most within the year. In the end of 2014, the average asking price was 1,160 EUR/sq.m, i.e. it was higher by approx. 6 percent. The asking prices for the middle-class apartments reached about 1,310 EUR/sq.m and were higher by 2 percent than in late 2013. Meanwhile, the asking price for the luxury-class apartments has remained unchanged over the year – it was 1,970 EUR/sq.m.

Average prices of apartments under classes in Klaipeda (EUR/sq.m)



Source: Inreal

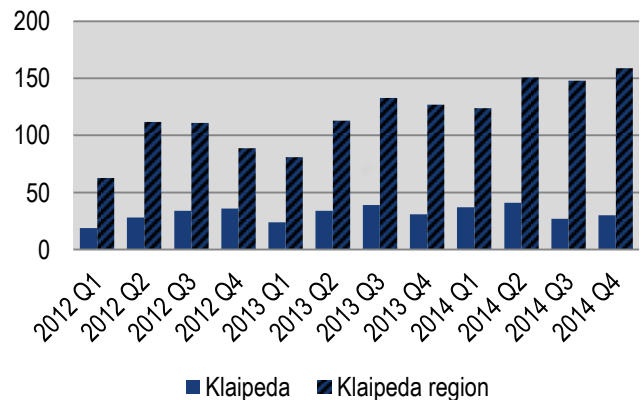
In accordance with the data of SE Centre of Registers, there were 135 private houses sold in Klaipeda city in 2014, and 582

in the region. In comparison with the previous year, the numbers of private house purchase-sale transactions has increased by 5.5 percent, and the increase by 28.2 percent was observed in Klaipeda region.

In accordance with the data of SE Centre of Registers, there were 120 land plot purchase-sale transactions concluded in Klaipeda in 2014, i.e. by approx. 36 percent more than in 2013. The number of transactions in the region reached 1,675 – by approx. 5 percent more than in the previous year.

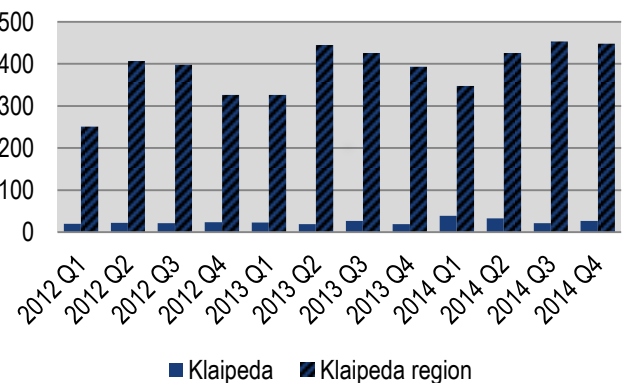
The residential land plots made up 52 percent of all land plot purchase-sale transactions concluded in Klaipeda in 2014, meanwhile, agricultural land plots made up 18 percent. The residential and agricultural land plot transactions concluded in Klaipeda region made up 30 and 52 percent of all land plot transactions, respectively.

Private house purchase-sale transactions in Klaipeda and Klaipeda region (units)



Source: SE Centre of Registers

Land purchase-sale transactions in Klaipeda and Klaipeda region (units)



Source: SE Centre of Registers

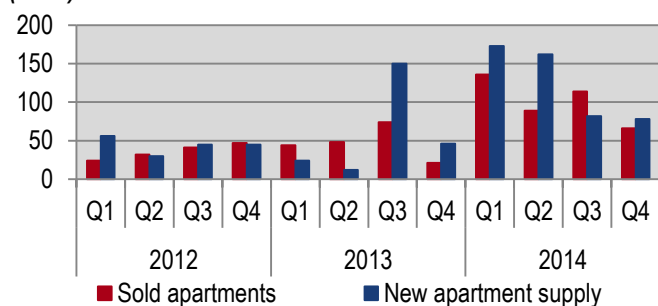
Housing market in Palanga and Neringa

In accordance with the data of SE Centre of Registers, in 2014, there were 426 and 58 apartment purchase-sale transactions concluded in Palanga and Neringa, respectively. The number of transactions registered in Palanga was almost the same as in 2013, meanwhile the number of transactions in Neringa decreased by approx. 3 percent.

Opposite trends are observed in the new construction market. In 2014, new construction apartments were actively purchased in Palanga – the total number of apartments acquired was about 410, i.e. by approx. 2.2 times more than in 2013. There were 32 new construction apartments purchased in Neringa municipality – by approx. 30 percent less than in 2013.

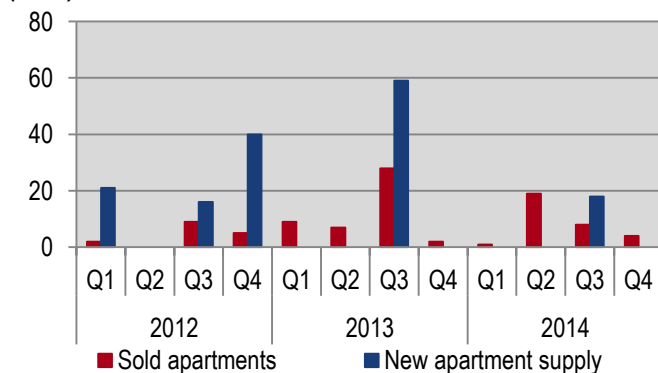
In 2014, there were 17 new multi-dwelling projects implemented in Palanga, which offered 495 new apartments for the primary market. Meanwhile, 2 new projects with 18 new apartments have occurred in the supply in Neringa primary market.

Dynamics of the new supply and sales of apartments in Palanga (units)



Source: Inreal

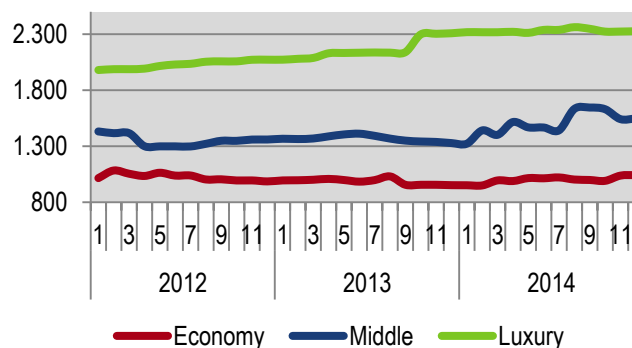
Dynamics of the new supply and sales of apartments Neringa (units)



Source: Inreal

In the end of 2014, the asking price for the economic-class apartments in Palanga reached about 1,040 EUR/sq.m and was higher by 9 percent than a year ago. The average asking price for the new construction middle-class apartments in Palanga was 1,550 EUR/sq.m. In 2014, a significant increase in the average price was observed in this segment; it reached approx. 17 percent, however this change was partially resulted by external factors – the sales were terminated in one of the middle-class multi-dwelling project, where the level of prices was lower. The asking price for luxury-class apartments in Palanga has increased by approx. 1 percent in a year – up to 2,330 EUR/sq.m. The total asking price level in Palanga has increased by 15 percent and reached about 1,720 EUR/sq.m in the end of 2014.

Average prices of apartments under classes in Palanga (EUR/sq.m.)



Source: Inreal

The average price of new construction apartments in Neringa reached about 2,980 EUR/sq.m and has increased by approx. 7.5 percent in a year.

BUSINESS CENTRE MARKET REVIEW

The year 2014 was distinguished by high activity in business centre segment in Vilnius – the development of new objects, many of them were sold to investors, and the total vacancy rate was moderately decreasing. New business centres were opened in Vilnius and Klaipeda, meanwhile the new supply of offices is expected to occur in Kaunas by mid-2015.

The income of service sector companies continued to grow in Lithuania. In comparison with 2013, income was growing by approx. 5.4 percent in 2014, and the total volumes, registered in January-September, reached EUR 15.3 billion. Nevertheless, it should be noted that in comparison with 2011-2013 the sales income was growing slower and the confidence index of service sector have not avoided the trend of reduction in 2014. It was resulted by many factors, including continuing geopolitical unrest in the East, unsecured recovery of economy in euro-area and slightly pessimistic consumer expectations resulted therefrom.

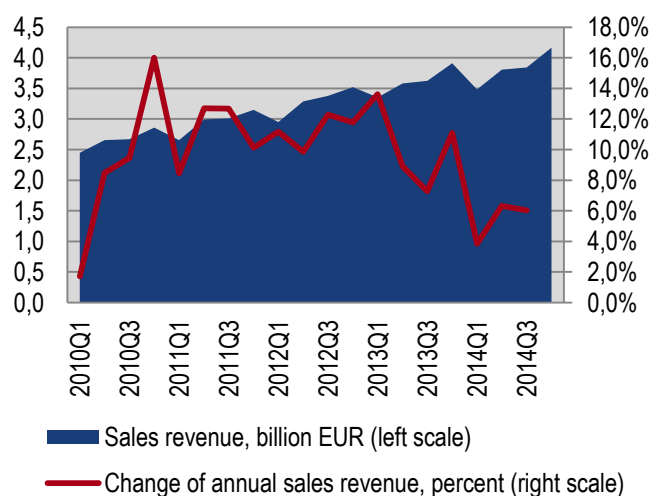
Nevertheless, the market of modern business centres in Lithuania, particularly in Vilnius, remained active in 2014 – the construction of new business centres have been continued and planned successfully, and vacancy rate in the most modern business centres was further decreasing.

In the second quarter of 2014 the business centre “Grand Office” was opened in Vilnius, and in the third quarter office market was supplied with the third building of Class-A business centre “Baltic Hearts”. The demand of the highest class business centres located in attractive areas of the city remains high, because the entire area of the Business Centre “Baltic Hearts III” has already been leased prior to its opening, and the majority of “Grand Office” has been occupied prior to its opening as well.

The year 2015 should be generous with new projects finished in business centre market. Currently, there are four Class-A business centres being built in Vilnius and they will supply the market with up to 57,000 sq.m GLA. All of them (“K29”, “Uniq”, “Premium” and “Quadrum I”) are expected to be opened in 2015 or early 2016. In the near future, the business centre

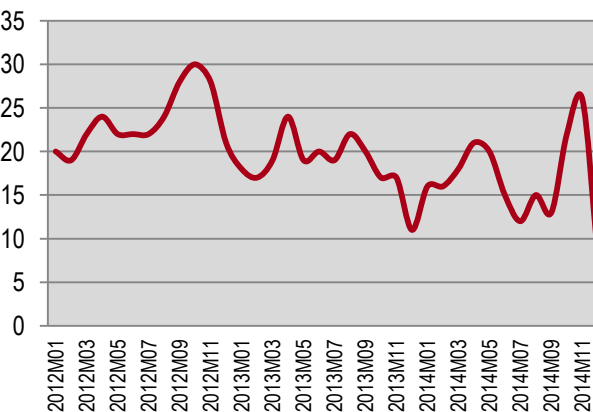
market will be supplied with new Class-B business centres (“Sostena” and “Vertingis”), which will add approx. 9,000 sq.m GLA. It is expected that the activity in this sector will not fade for the next several years as well – in 2015, it is intended to launch the construction of business centre “Green Hall II” (14,000 sq.m); in 2016 – a new office building (13,000 sq.m) of the business centre “3 Bures”, as well as other projects of business centres. It should be noted, that the Class-A business centres, to be opened in 2015, will already have lessees in advance, thus high increase in the vacancy rate should not be expected in Vilnius – in late 2015 it could reach up to 5 percent.

Dynamics of service sector enterprise income of Lithuania, billion EUR



Source: Department of statistics

Services confidence indicator



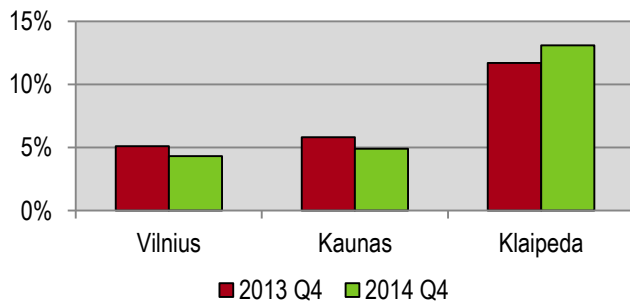
Source: Department of statistics

Growing supply resulted in the decrease of total vacancy rate in the capital city from 5.1 to 4.0 percent. In the end of 2014, the area of vacant premises in Class-A business centres in

Vilnius reached 0.9 percent. Vacancy of Class-B1 offices was 5.1 percent, and in the end of 2014 the largest area of vacant premises was in Class-B2 business centres, i.e. 6.7 percent. It should be noted that during the last quarter the vacancy rate in Class-B2 business centres was growing. This trend allows assuming that the redistribution of lessees has continued in the market – new projects of business centres have provided lessees with more opportunities to move their activities from lower-class to higher-class offices. Further rotation of lessees should be promoted by new business centres, which will occur in the market.

In the end of 2014, the lease prices were stable in business centres. The average lease price in Class-A business centres, operating in Vilnius, reached 12.2-16.0 EUR/sq.m. The lease prices of Class-B1 offices were ranging from 9.3 to 12.2 EUR/sq.m the Lease price of Class-B2 offices reached 6.7-8.7 EUR/sq.m. It is likely that the new higher-class business centres, which currently apply prices higher by 10-15 percent than the average level, will not change the pricing, therefore the average lease prices in Class-A business centres should increase by 6-9 percent in 2015. The lease prices in Class-B business centres are likely to remain stable.

Change in vacancies in the business centre sector of the country, percent



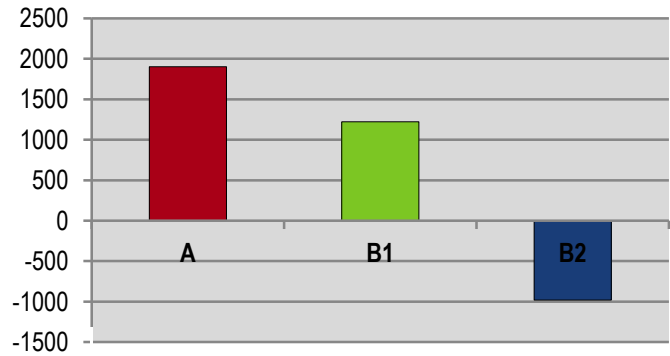
Šaltinis: „Inreal“

Business centres being developed in Vilnius in Q4 2014

Business center	Class	GLA, sq.m	Open date
Premium	A	8,200	Q2 2015
K29	A	14,000	Q3 2015
Uniq	A	7,000	Q3 2015
Quadrum I	A	27,000	Q1 2016
Sostena	B1	3,000	Q2 2015
Vertingis	B2	6,000	Q3 2015
Total:		65,200	

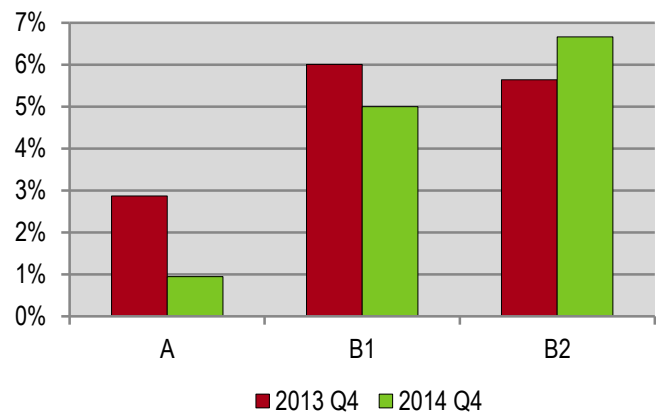
Source: Inreal

Take-up of vacant office premises in Vilnius in 2014



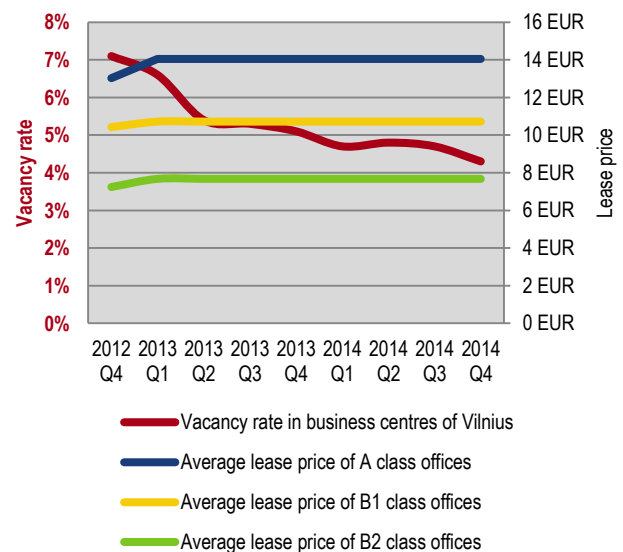
Source: Inreal

Dynamics of vacancies in Vilnius business centres under classes



Source: Inreal

Dynamics of lease prices and vacancies in Vilnius business centres



Source: Inreal

In 2014, there were significant acquisitions registered in the investment transaction market in Vilnius. “Nordic and Baltic Property Group” has purchased the business centres “TRIO” and “Business Park 4”, with the total area reaching approx. 39,000 sq.m. “East Capital Explorer” has acquired the business centre “Vilniaus Verslo Uostas”, and in the end of 2014 it reported about changing the name of this business centre into “3 Bures” and intentions to expand this business centre. In September, “Westerwijk Investments” has purchased “Domus Centras”, where offices cover about 4,400 sq.m. In the second half-year, the business centre “Grand Office” was sold to the company “Capital Mill”; in the end of 2014, “Prosperus Real Estate Fund I” has acquired the business centre “North Star” (10,500 sq.m). Detailed terms and conditions of the implemented transactions were not presented to public, however the available information allows assuming that yield level of these transactions was ranging from 6 to 8 percent.

In 2014 the vacancy rate in modern business centres in Kaunas was decreasing from 5.8 to 4.9 percent (in the middle of the year it reached 4.5 percent). The area of vacant Class-B1 and Class-B2 premises in Kaunas has decreased by about 480 and 230 sq.m, respectively. In the end of 2014, the total area of vacant modern offices in Kaunas was 3,700 sq.m. All these premises were located in Class-B1 and B2 business centres, because, according to the assessment of “Inreal”, there are no Class-A business centres in Kaunas.

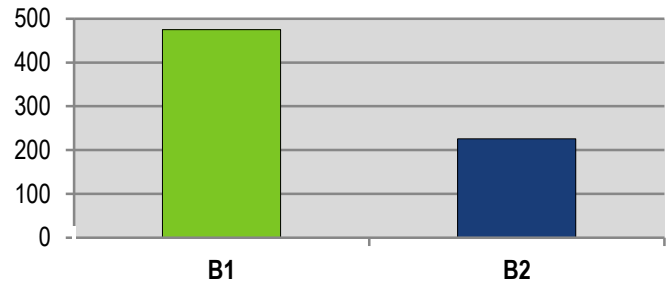
In the end of 2014, the least area of vacant premises for lease was in Class-B2 business centres, where the vacancy rate was 4.0 percent. The vacancy rate in Class-B1 business centres was slightly higher – 5.8 percent. Within the last year, the decrease in vacancy rate in Class-B1 business centres was much more significant than in Class-B2 business centres, and this indicates the increasing demand of high-quality offices in Kaunas.

The lease prices in modern business centres in Kaunas remained stable. In the end of 2014, the lease prices of Class-B1 offices was 7.2-10.1 EUR/sq.m, and premises in Class-B2 business centres have been leased for 5.2-7.2 EUR/sq.m at an average.

The variety of Class-B1 business centres should become wider in early 2015. The business centre “Mikrovisata” is expected to be opened in March, which will supply the

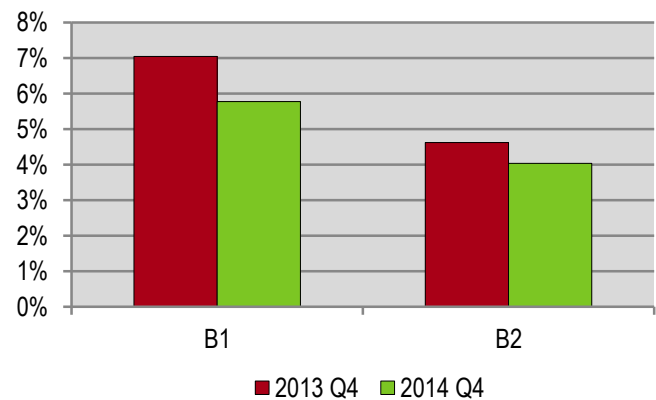
business centre market with 3,500 sq.m GLA. One more Class-B1 business centre (on Ozeskienes str.) is expected to be opened in spring. The area of new offices, which will be offered for lease, will be about 1,000 sq.m.

Take-up of vacant office premises in Kaunas in 2014



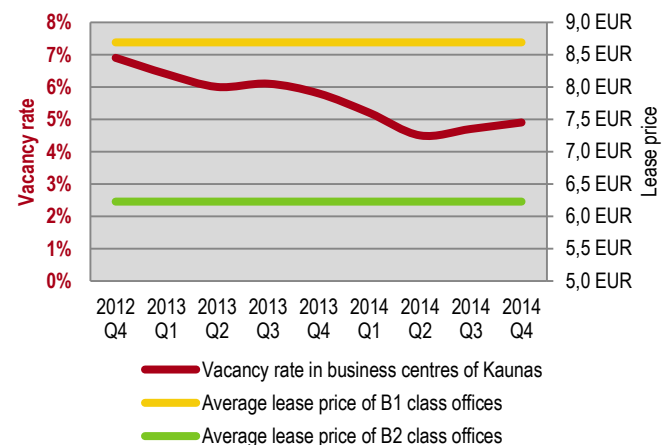
Source: Inreal

Dynamics of vacancies in Kaunas business centres under classes



Source: Inreal

Dynamics of lease prices and vacancies in Kaunas business centres



Source: Inreal

In 2014, the occupancy level in the majority of modern business centres was growing in Klaipeda, however in the end of 2014 the total vacancy rate increased due to newly opened business centres “Liepu Biurai” and “Liepu Aleja”. The total area offered for lease in Class-A business centres was 2,600, and the majority of them have not had lessees in the end of 2014 yet. As a result, over the year the vacancy rate in Klaipeda has increased from 11.7 to 13.1 percent. In 2014, the take-up of Class-A offices reached 630 sq.m. Meanwhile, the take-up rates in Class-B1 and B2 business centres were worse – respectively, 10 and 280 sq.m of area for lease were vacated within a year.

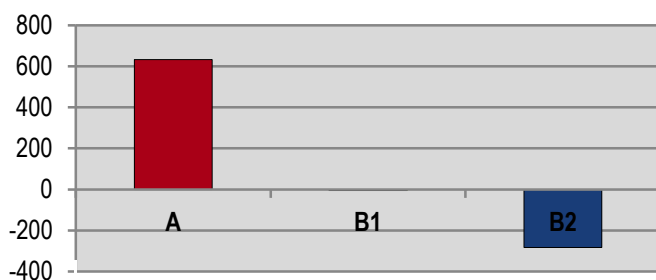
Business centres being developed in Kaunas in Q4 2014

Business center	Class	GLA, sq.m
Mikrovisata	B1	3,500
Ozeskienes str. 15	B1	1,000
Total:		4,500

Source: Inreal

In the end of 2014, the majority of vacant premises were in Class-A business centres, where the vacancy rate reached 29.7 percent. Meanwhile, if the influence of the above mentioned newly opened business centres was eliminated, this index would reach 19.7 percent. Significantly lower vacancy rates were registered in Class-B1 and B2 business centres, where the area of vacant premises available for lease, respectively, was 7.0 and 9.6 percent In the end of 2014.

Take-up of vacant office premises in Klaipeda in 2014



Source: Inreal

In the end of 2014, the average lease price of offices in the Class-A business centres in Klaipeda increased and was 8.7-14.5 EUR/sq.m. It may be related to the newly opened Class-A business centres, where the lease prices significantly exceeded the previous average price in the market. The lease prices in Class-B1 business centres were ranging from 6.4 to

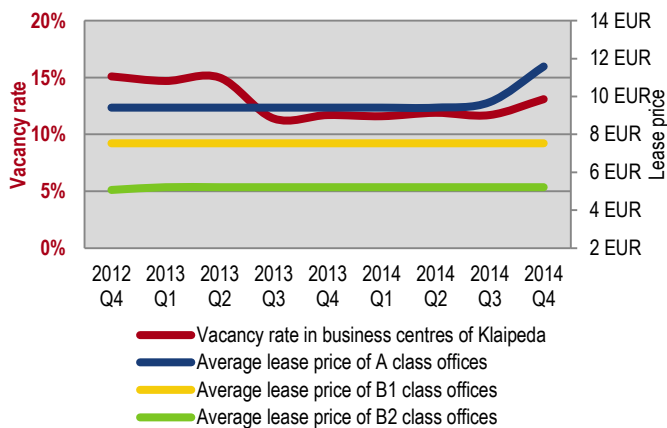
8.7 EUR/sq.m. The price of Class-B2 offices was 4.6-5.8 EUR/sq.m at an average.

Dynamics of vacancies in Klaipeda business centres under classes



Source: Inreal

Dynamics of lease prices and vacancies in Klaipeda business centres



Source: Inreal

SHOPPING CENTRE MARKET REVIEW

Tangible investments in the shopping centre and supermarket chain segments were provided to the quality improvement of existing objects. At the same time, favourable economic environment allow shopping centres to expand. The vacancy rate there remains particularly low, however the expansion of new shopping centres is being planned very carefully.

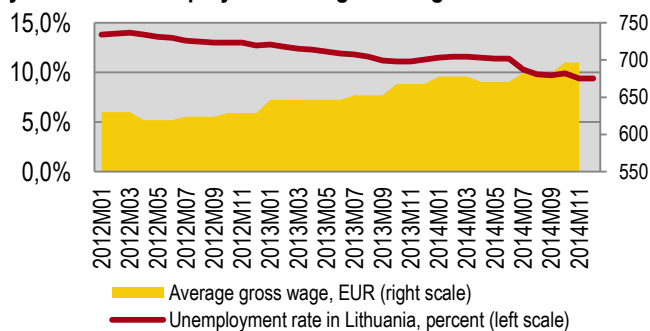
In 2014, the environment remained favourable for growing volumes of supermarkets in the country. The unemployment rate was decreasing in Lithuania and decreased below 10 percent in the second half-year. As a result of further development of Lithuanian economy, the average wage was also increasing, which reached almost 700 EUR in November 2014. In view of the fact that inflation has remained close to zero in Lithuania, the purchasing capacity was growing in the country, and therefore people were capable of purchasing more or higher-quality goods.

In January-November 2014, the volumes of retail trade have reached 7.92 billion EUR in Lithuania, i.e. by 5.5 percent more than in the corresponding period in 2013. The paces of growing trade volumes in the last year can be assessed as stable, ranging from 4 to 6 percent.

It should be noted, that catering and beverage service volumes have increased significantly in 2014 – by 10.4 percent, and were reaching EUR 418 million in the respective period. The increasing consumption in this segment allowed the interest in premises suitable for catering services to grow in shopping centres as well as high streets. For example, as a result of existing situation in Vilnius Old Town, where the supply of attractive premises is limited, the lease prices of suitable premises increased by 10-20 percent and in some cases even more. The increased interest in such premises was observed in Kaunas and Klaipeda, and the shopping centres sought to exploit the existing trends. For example: reconstruction of "Babilonas I", where 4 new catering facilities will be opened, and "Ozas", which is planning to open a famous snack-bar "Subway" in 2015.

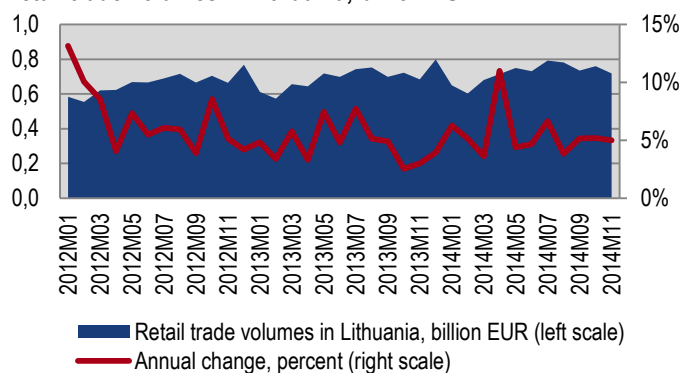
Along with the end of reconstruction of the above mentioned "Babilonas I", the apparel chain "Hennes & Mauritz" ("H&M") will enter the market in Panevezys. It was expanding actively in 2014 and had 7 shops operating in Lithuania in the end of the year. One more shop of this chain should be opened in the shopping centre "Mega" in Kaunas. "H&M" steps indicate that the international companies find and seek to use the potential, existing in the retail market in Lithuania.

Dynamics of unemployment and gross wage



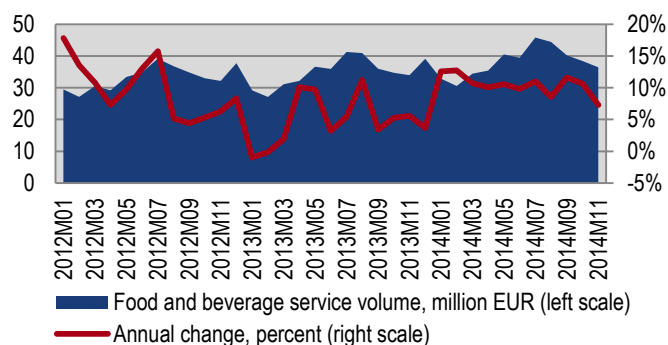
Source: Department of statistics

Retail trade volumes in Lithuania, billion EUR



Source: Department of statistics

Food and beverage service volumes, million EUR



Source: Department of statistics

The first shopping centre “IKEA” in the Baltic countries, which was opened in Vilnius in 2013, gave a strong impulse for further development of the southern part of Naujininkai urban district. In the same year, the construction works of additional transport communication were finished and facilitated communication not only with the above mentioned shopping centre but also with Vilnius Airport. In the end of 2014, the construction of the shopping centre “Nordika” was launched near “IKEA”. When both stages are completed, the total area of the shopping centre will reach about 40,000 sq.m. In early 2014, the shopping centre “Domus Pro” was opened near Ukmerges str. The second stage of its construction will be finished in the first half-year of 2015, thus adding about 5,000 sq.m GLA. The outlet centre “Parkas Outlet”, located in Zirmunai urban district, has announced about the plans of expansion – in 2016 its area should increase by 3,000 sq.m and will reach about 19,500 sq.m in total.

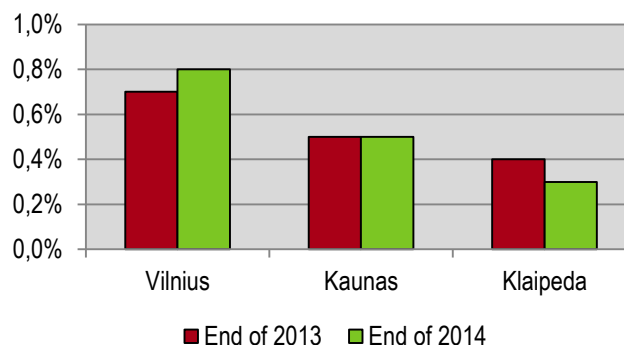
In the very end of 2014, a new shopping centre with the area reaching 7,400 sq.m was opened on the crossroad of Savanoriu and S. Zukausko street in Kaunas. The supermarket “Rimi” is located in this shopping centre; trading and service companies are offered to lease the remaining 4,900 sq.m area. The expansion project of the shopping centre “Mega” is planned to be implemented in 2016, what should increase its total area by approx. 25 percent – up to 102,000 sq.m.

In 2014, Klaipeda market was expanded by one more new shopping centre – the shopping centre “Luize”, which was opened in the middle of the year, covers the area, exceeding 6,000 sq m. The housewares and household product shopping centre chain “Depo” announced about entering the Lithuanian market. This Latvian company, which is managing 9 shopping centres in its own country, intends to establish a shopping centre in Klaipeda, covering 12,000 sq.m area. It is expected that the development works will be finished in 2016.

The vacancy rates in the shopping centres have remained stable in all major cities in Lithuania over 2014. The vacancy rate in Vilnius increased from 0.7 to 0.8 percent. The vacancy rate has not changed in Kaunas – remaining at 0.5 percent. In the end of 2014, lower vacancy rate was in Klaipeda, which decreased from 0.4 to 0.3 percent. It should be noted that in the end of 2014 the vacancy rates were not equal in all shopping centres – some of the market leaders registered vacancy equal to zero, however the vacancy rates in some less popular shopping centres was reaching 4-7 percent. It

also reveals the persisting trend in the Lithuanian shopping centre market – the major shopping centres, established in attractive locations of the cities, attract higher footfall and are able to invest in their renewal, thus forming a larger gap from market players having lower capabilities.

Dynamics in shopping centre vacancies in the major cities, percent



Source: Inreal

Shopping centres launched in Lithuania in 2014

City	Title	Area, sq.m	End of construction
Vilnius	Domus Pro (I stage)	7,500	Q1 2014
Vilnius	Prisma	10,000	Q1 2014
Vilnius	Norfa	4,600	Q2 2014
Kaunas	SC	7,400	Q4 2014
Klaipeda	Luize	6,000	Q2 2014
Total:		35,500	

Source: Inreal

Shopping centres being developed or to be developed in Q4 2014

City	Title	Area, sq.m	End of construction
Vilnius	PC Domus Pro (II stage)	5,000	Q1 2015
Vilnius	Nordika (I stage)	18,000	Q4 2015
Vilnius	Nordika (II stage)	22,000	Q2 2016
Vilnius	Parkas Outlet (expansion)	3,000	Q2 2016
Kaunas	SC Mega (II stage)	22,000	2016
Klaipeda	SC Depo	12,000	2016
Panevezys	Babilonas I (II stage)	1,600	Q1 2015
Total:		83,600	

Source: Inreal

In 2014, a larger share of investment transactions in Lithuania was focused on business centres, however active investing was also observed in the shopping centre segment. In the second half-year, the company “Ogmios Centras” sold the office and shopping complex “Domus Centras” to the Dutch company “Westerwijk Investments”. A specialized furniture and interior shopping centre “Domus Galerija” covered the area of 10,600 sq.m in this complex. In the end of 2014, “Lords LB Asset Management” has purchased the shopping centre “Mandarinas”, which has 7,900 sq.m GLA. The transaction should be finished in early 2015. Some smaller objects attract investors’ attention as well – in 2014, “Eika” has successfully sold the supermarket “Norfa” in Pilaite urban district.

Recently, the focus on “quality” rather than “quantity” has been felt not only in the shopping centre segment, but also in the supermarket chain segment. In 2014, many supermarkets were reconstructed by “Iki”, which is the leading chain according to the number of supermarkets, managed in Lithuania. “Maxima”, which is insignificantly lagging behind, has also focused on the reconstruction of its supermarkets. According to the pace of opening new supermarkets, “Freshmarket”, which entered the Lithuanian market in 2013, was in the leading position in 2014. It should be noted, that it focuses on smaller supermarkets, established in convenient locations, therefore the total area of newly opened supermarkets reaches just approx. 5,800 sq.m. In 2014, the supermarket chain “Rimi” was distinguished by its expansion – it opened 3 new supermarkets in 2013 and even 9 supermarkets, including “Hypermarket” type supermarkets, last year. This supermarket chain is enhancing its positions in shopping centres – supermarkets “Rimi” were opened in the shopping centres “Domus Pro”, “Luize” and “Babilonas I”; moreover, it will open a supermarket in the project “Nordika”, which currently is under construction. In 2015, the supermarket chains, operating in Lithuania, intend to pay more attention on quality improvement in their supermarkets, as well as close some outdated supermarkets.

Intensive competition remains in the shopping centre market, and it will be even more intense, because the supermarket giant “Lidl” is entering the Lithuanian market. In accordance with the information available in the end of 2014, there were about 25 supermarkets being built or planned to be built in different cities in Lithuania. The construction works of the logistics centre “Lidl”, located near Kaunas, were continued.

The volumes of supermarkets in Lithuania continue to grow steadily and allow expanding shopping centres as well as supermarkets. The expansion of existing market players is prevailing among the ongoing projects, meanwhile the number of newcomers is low – due to old-timers’ active enhancement of positions, the newcomers find it more difficult to enter the market in the major cities of Lithuania.

Development of supermarket chains in the country in 2014

Supermarket chains	Supermarkets, newly opened	Supermarkets, restored	Total supermarkets
Maxima	3	14	232
Iki	2	23	238
Norfa	5	1	136
Rimi	9	0	46
Prisma	1	0	4
Kubas	4	0	29
Fresh Market	13	0	26
Total:	37	38	711

Source: Inreal

LOGISTICS CENTRE MARKET REVIEW

The opportunities to lease premises in the logistics centre segment remained limited, however there was no rush in developing new objects, meanwhile the general price level of premises for lease has remained stable over 2014. The projects of built-to-suit warehouses are being implemented more actively.

In January-November 2014, the industry output was reaching EUR 16.5 billion, i.e. by 0.5 percent less than in the corresponding period in 2013. The year 2014 was changeable to the industrial segment. It is revealed by confidence rates in this sector – they have been lower than in 2013 for almost the whole year. It can be related to economic problems in Russia, unsecured economic development in euro-area, and more rigid behaviour of companies, resulting therefrom.

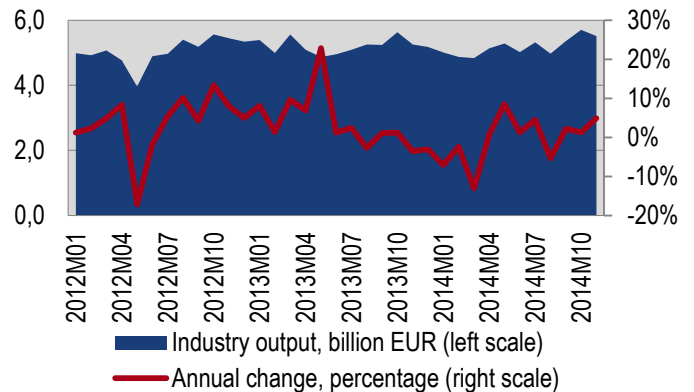
Uncertainty in the market reflects in the expectations related to export volumes and reserves, which have been more moderate for almost the whole 2014. On the other hand, it should be noted that the decrease in the export volumes in January-November 2014 was relatively small, i.e. by 0.5 percent, and if oil product influence is eliminated – it has grown by approx. 7 percent in comparison with the corresponding period in 2013. It allows assuming, that the Lithuanian exporters' confidence is suppressed by the situation in the East and West, however they have managed to deal with the challenges successfully so far.

Changes in the vacancy rates, observed in the logistic segment in 2014, could be related to the opening of new logistics centres, rather than changes in occupancy rate in the already operating ones. The vacancy rate in the previously built and well-established logistics centres in the market has remained particularly low over 2014, i.e. 0-0.2 percent. The occupancy rate in newly built objects was gradually growing. As a result, the vacancy rate in Vilnius as well as in Klaipeda reached 4.6 and 11.8 percent, i.e. they were higher than a year ago. Meanwhile, the vacancy rate in Kaunas has remained close to zero.

Regardless of the vacancy rates have remained low in the majority of modern logistics centres, it did not give valid

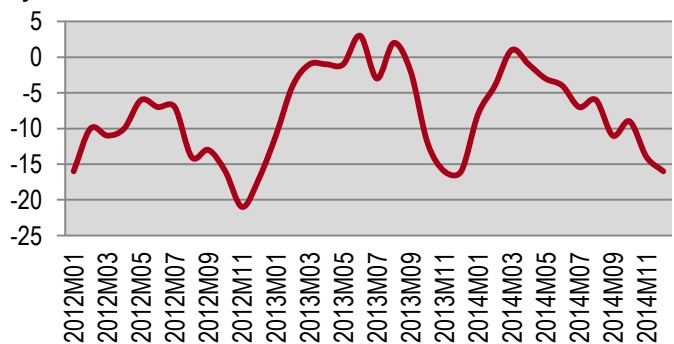
reasons to increase lease prices, because the balance was reached – if lessors try to increase the lease prices, lessees become more active in looking for built-to-suit alternatives. In the end of 2014, the average lease price of modern logistics centres in the capital city was 3.5-4.9 EUR/sq.m and 3.2-4.3 EUR/sq.m in Kaunas and Klaipeda. The lease price in older logistics centres, located in Vilnius, was 1.7-2.9 EUR/sq.m and 1.4-2.6 EUR/sq.m in Kaunas and Klaipeda.

Industry output in Lithuania, billion EUR



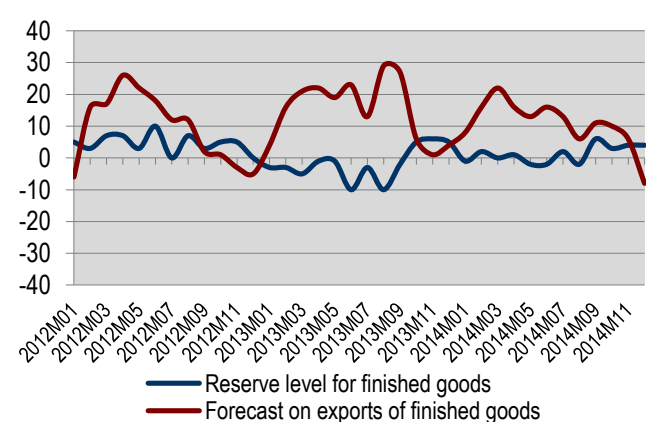
Source: Department of statistics

Dynamics of Industrial Confidence Index in Lithuania



Source: Department of statistics

Industry representatives' forecasts on exports and reserves



Source: Department of statistics

The second warehouse of “Transekspedicija” with 14,000 sq.m GLA was opened in Vilnius in 2014. Warehousing market was also supplied by “Transimeksa”, which offered 4,500 sq.m for lease from 10,000 sq.m area in the newly built logistics centre. In 2015, the logistics centre “Arvydo Paslaugos II” will be finished in the capital city – its area will be 8,500 sq.m. Large logistics centres are being built in Kaunas as well, but they will be built-to-suit, meanwhile significant projects for lease have not been built in the end of 2014. In the second quarter of 2014, the second stage of the logistics centre “Vlantana” was finished in Klaipeda – a modern warehouse covered 19,200 sq.m GLA. The logistics centre “AdRemLez II” was also opened in the end of 2014 – its area reaches 14,600 sq.m. Some premises are used by the company itself, and the remaining area was offered for lease.

It seems that further development of this segment will depend on the activity of anchor tenants and their willingness to expand their activities in Lithuania. There are projects drafted in all three major cities, and their construction works could be launched once an anchor tenant occurs. Some of them have been offered in the market since early 2014, however they have not attracted anchor tenants yet. Currently, it is a challenge to attract such tenant, and logistics centres, established in convenient locations as well as having suitable infrastructure, have more possibilities to do this. Klaipeda FEZ Management Company has announced about its plans to build a logistics centre with 13,000 sq.m GLA. In the end of 2014, it has still negotiated with its lessees, and it is expected that the project will be finished in 2015.

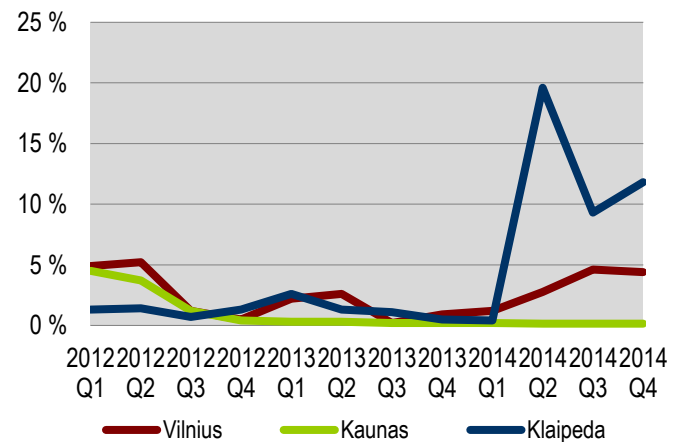
In 2014, the activity of the market in the logistics centre segment has been also maintained by built-to-suit projects. The projects have been implemented successfully in Vilnius by “Wurth Lietuva”, “Hormann Lietuva”, in Kaunas by “Limedika”, “Osama”, and “Sanitex”. In 2015, the implementation of several projects will also be completed in Kaunas, including warehousing premises of “Lietuvos Pastas”, “DPD”, and “Lidl”.

Although to a relatively small extent, however the logistics centre segment has not remained unobserved in investment transaction market. In May 2014, “Northern Horizon Capital” has successfully sold the logistics centre “Onninen” in Kaunas. The area of the logistics centre, built in 2005, was 3,000 sq.m.

The built-to-suit warehouses make up the major share of logistics centre development in the logistics centre segment in

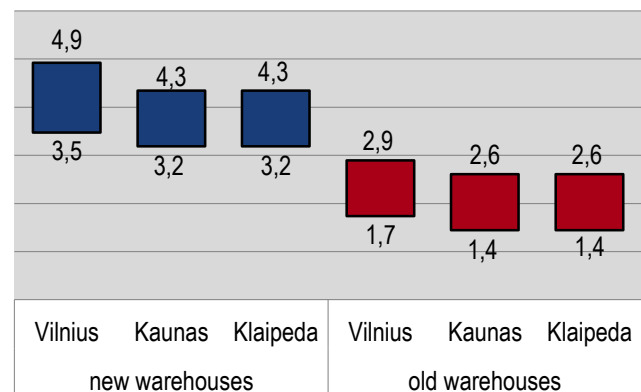
Lithuania; meanwhile the implementation of projects for lease is sluggish. This trend has already lasted for several years at least and seems unlikely to change, because this is a more flexible and safer alternative of expanding logistics centres. It is possibly not very acceptable to lessees, because it needs more time prior to moving to the new premises, but it is more attractive to investors due to risk minimisation.

Dynamics of vacancies in modern logistics centres in Lithuania



Source: Inreal

Lease prices of logistics centres in Lithuania at the end of 2014, EUR/sq.m



Source: Inreal

Logistics centres, being developed and expected to be developed in Lithuania

City	Title	Area, sq.m	End of construction
Vilnius	Arvydo Paslaugos II	8,500	Q3 2015
Klaipeda	Klaipėdos LEZ sandėlis	13,000	Q4 2015
Total:		21,500	

Source: Inreal

TOURISM AND HOTEL MARKET REVIEW

Regardless of the decrease in tourist flows from Russia, the occupancy rates of Lithuanian airports and hotels continued to grow in 2014. It allowed the hotel segment to grow in Lithuania, and further development thereof is expected in 2015 as well.

The three international airports in Vilnius, Kaunas and Palanga altogether serviced 3.8 million passengers over 2014 – i.e. by 10.2 percent more than in 2013. In 2014, there were 77 percent of all passengers (2.94 million) serviced in the capital city – i.e. by 10.6 percent more than in 2013. The increase in the number of passengers serviced in Kaunas and Palanga airports was slightly lower – by 9.8 and 4.0 percent, respectively.

A moderately growing number of passengers in the Lithuanian airports is resulted by improving travellers' living conditions as well as business conditions. Improving infrastructure of tourist destinations, active dissemination of information, as well as the fact that the country is more often included into the list of best places to visit, significantly contribute to the growing flows of passengers as well. For example, in October 2014, the world's largest travel guide publisher "Lonely Planet" has identified Lithuania as one of the top 3 destinations of tourism in 2015.

The growing number of serviced passengers in the Lithuanian airports is also the result of improving communication by air transport. Even 13 new direct destinations were offered by existing air companies and newcomers in 2013, meanwhile at least 15 additional destinations were offered in 2014, including to: France, Germany, Sweden, Ireland, Denmark, Georgia, etc. It allowed expanding the geographical map of potential tourists of Lithuania.

It should be noted that in July 2014 three international airports were merged by establishing one managing company. It is expected that it will optimize the costs of the airports, and in a long-term perspective passengers should also experience it – the quality of airport services will improve. Moreover, it is planned that since 2016 the development of a new airport activity strategy will be launched. As a result of this new strategy, an increasing number of low-cost airlines should be

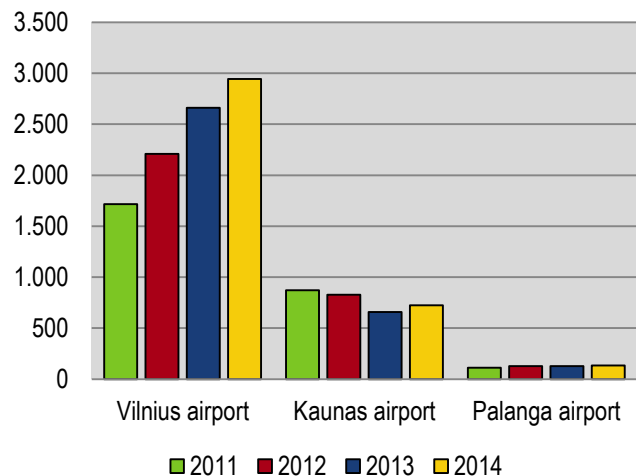
directed to Kaunas airport, meanwhile leaving Vilnius airport for higher-class airlines.

Lithuanian hotels had accommodated more than 1.8 million visitors over 2014 – approx. 60 percent of them were foreigners. Expanding airports in the country directly influence the increasing occupancy of hotels, which has remained record-breaking in the end of 2014 – i.e. approx. 48 percent.

Regardless of all positive indexes, the hotel segment was influenced by unfavourable changes in external markets – in 2014, the share of tourists from Russia accommodated in the hotels in Lithuania has decreased up to 10.5 percent, meanwhile the average rate in 2013 reached approx. 12 percent. It meant a decreased occupancy for some hotels in Lithuania, particularly to the ones focusing on the Eastern markets; they were looking for the ways to attract tourists from other countries. The refocusing was facilitated by further growing number of tourists from some other directions (Norway, Sweden, Germany, Asia, etc.), therefore, regardless of the situation in Russia, the total number of tourists accommodated in hotels has increased by 9 percent in the third quarter of 2014. Similar growth is expected for the whole 2014.

In 2014, the number of hotel rooms was further growing in Lithuania – it reached about 13.3 thousand rooms in the end of 2014. Newly built or reconstructed hotels were opened in 6 cities – the total number of rooms offered in the market was 260.

Number of passengers, served at the airports of the country, thousand



Source: Lithuanian airports

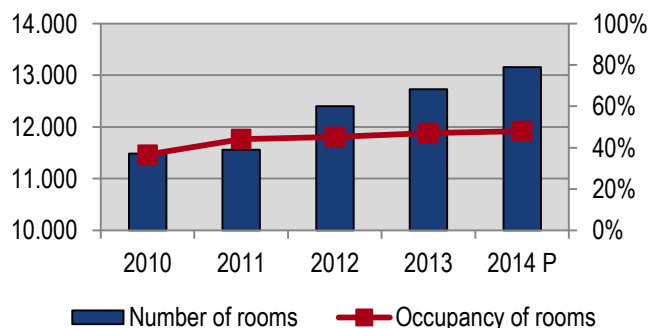
The development of hotel segment should not stop in 2015. In May, it is intended to open a reconstructed hotel “Ambassador”, which is located on Gedimino street in Vilnius. In the near future the construction works of a 130-room hotel should be launched near the business and entertainment centre “Forum Palace”. New hotels are already planned or discussed to be built in Vilnius on Pilies str., Dominikonu str., Rinktinės str., and Didžioji str. in the future. The establishment of hotels on Liepojos str. and Malunininku str. is being discussed in Klaipėda. Meanwhile the development of new hotels in Kaunas is not planned.

Analysing hotel prices, applicable during the season in 2014, it was noticed that the lowest price in the most popular hotels applied to double-rooms, depending on the hotel rating, was in Druskininkai and Kaunas, where prices were ranging from 26 to 84 EUR/night at an average. The range of prices in Vilnius, Klaipėda, Palanga and Neringa was higher – from 32 to 96 EUR/night, at an average. In comparison with the previous year, the prices in the Lithuanian hotels remained unchanged in 2014.

It should be noted, that the luxury 5*** hotels are operating in Vilnius and Palanga only. Accommodation prices in these hotels were significantly higher – from 150 EUR/night in the capital city, and from 168 EUR/night in Palanga.

The hotel segment did not avoid changes due to unfavourable circumstances in external markets; however in 2014 it led to changes in the structure of arriving tourists more rather than worsening market indexes. Moderately improving rates in tourism sector as well as favourable investment environment enable establishment of new hotels, and renewal or further development of existing hotels. This allows us expecting this sector to grow successfully in Lithuania next year.

Dynamics of hotel rooms and occupation thereof in Lithuania



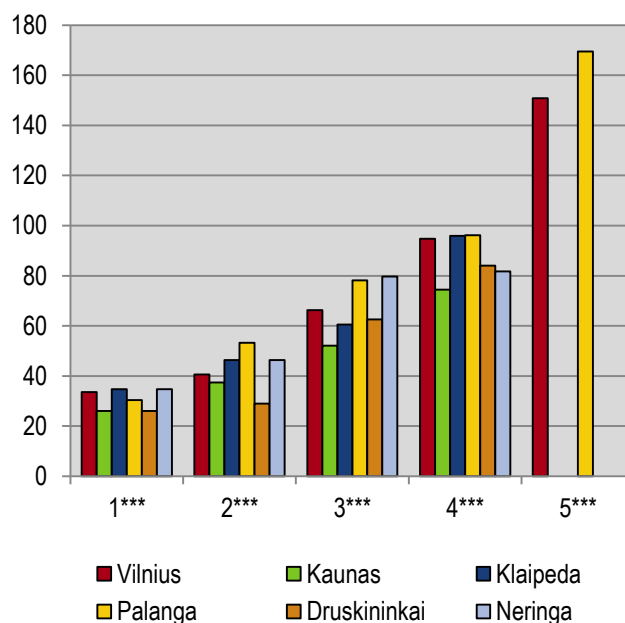
Source: Department of statistics

Hotels, opened in Lithuania in 2014

City	Hotel	Class	Rooms
Palanga	Amberton Green	4****	59
Kaunas	Algiro	3***	23
Vilnius	City hotel Rūdninkai (reconstructed)	3***	28
Anyksciai	Spa Vilnius-Anyksciai	4****	47
Marijampole	Mercure Marijampole (reconstructed)	4****	47
Klaipėda	Baltpark	3***	56
Total:			260

Source: Inreal

Average price for a hotel standard double room in Lithuania, in season 2014



Source: Inreal

Simona Oliškevičiūtė-Cicėnienė, Managing Associate, Head of Real Estate and Infrastructure Practice Group of Raidla Lejins & Norcous

REAL ESTATE LAW AND TAX NEWS

Amendments to the Law on Territorial Planning and related legislation

As of 1 January 2014, the restated Republic of Lithuania Law on Territorial Planning (the “**TP Law**”) entered into force. The TP Law amendment involves the systematic reform of the territorial planning process, which encompasses the issues of regulation, implementation and oversight of the core territorial planning processes. Along with the TP Law new wordings of its secondary legislation extensively detailing the provisions of the TP Law took effect.

As part of the reform, the system of territorial planning documents was altered and two types of territorial planning were introduced: integrated territorial planning and special territorial planning.

The boundaries of the solutions of a territorial planning document prepared in accordance with the hierarchical system of integrated territorial planning documents, which is provided by the TP Law, are delineated not in a number of documents, but rather one higher-level territorial planning document. Meanwhile, special territorial planning solutions intended for territories with functional commonality are coordinated with integrated territorial planning solutions.

As of 1 January 2015, the restated Procedure for Strategic Environmental Assessment of Plans and Programmes (the “**SEA Procedure**”), which is relevant for the industry, energy, transport, telecommunications, tourism, agriculture, forestry and other sectors, entered into force. Compared to previous regulation, the Procedure has reduced the number of strategic environmental assessment documents to be prepared by the organisers of planning and has significantly shortened the mandatory procedures.

In addition, the SEA Procedure enables the organiser of planning to assess the plan or programme without the screening procedure; the public and the authorities will consider SEA documentation simultaneously, while the participants of the assessment will consider the same within shorter time limits.

Amendments to the Law on Construction and related legislation

As of 1 January 2014, most of the amendments to the Republic of Lithuania Law on Construction (the “**Law on Construction**”) and the legislative package of its subordinate legislation entered into force. With the taking effect of this wording, design proposals have gained new and much higher significance and are intended not only to convey the primary idea of the planned building, but also have the function of informing the public about contemplated design activities. Besides, they serve as a basis for issuing special architectural requirements, special requirements for the management and protection of protected areas, and special heritage protection requirements.

The Law on Construction has been amended to provide for more extensive powers of the State Territorial Planning and Construction Inspectorate (the “**STPCI**”) – in the cases where special requirements or terms of connection are not issued to the builder within the specified time limit, the latter is entitled to make a request to the STPCI that the latter issue such requirements or terms. Finally, the Law on Construction has specified and shortened the time limits for checking of design documentation and issuance of building permits.

As of 1 January 2014, with a view to aligning the supervision of territorial planning and construction processes, the Law on National Supervision of Territorial Planning and Construction (the “**NSTPC Law**”) was adopted and entered into force. Provisions governing national supervision of construction, suspension and termination of construction and elimination of the effects of unauthorised construction have been transposed into the NSTPC Law and supplemented.

As of 15 September 2014, a significant Order No. D1-698 of the Minister of Environment “Regarding Approval of the Rules for Management of Construction Waste” (the “**Rules**”) entered into force. The Rules have altered former arrangements for management of construction waste on a construction site, which provided that sorting had to be limited only to waste and structures that are suitable for recycling and reuse.

Since the entry into force of the Rules, household and inert waste, waste suitable for recycling and reuse, secondary raw materials, hazardous waste and waste not suitable for recycling, temporarily stored on a construction site, must be

sorted and kept separately. Further, sorted waste must be transferred to companies authorised to manage such waste under contracts for use and disposal of waste.

As of 1 January 2015, amendments to construction technical regulation STR 1.05.06:2010 “Design of a construction works” entered into force with the effect of deleting the definition “a group of buildings” and adding the following new definitions: total floor space of the building, useful floor space of the building, volume of the building, and thermo-insulated separating structure. In addition, the definitions of technical works and technical works design documentation and the scope of preparation of technical specifications have been amended accordingly.

Importantly, since the taking effect of the amendments, the design documentation for changing the purpose of the building (room, premises) or engineering structure, when reconstruction or major repairs need not to be carried out, must determine and implement other solutions, unless such new purpose is subject to more stringent legislative requirements (number of parking spaces, engineering networks, playgrounds, greenery, etc.).

Amendments to the Law on Land and related legislation

As of 27 November 2014, the Law Amending the Law on Land took effect. It amended the wording of the Law on Land which provided for the general rule that projects for formation and re-parcelling of land parcels had to be prepared at the cost and expense of the project proponents. The new wording of Article 42 distinguishes between projects concerning formation and re-parcelling of state-owned and municipal and privately owned land parcels and stipulates a mandatory provision that projects concerning formation and re-parcelling of privately owned land parcels must be prepared at the cost and expense of the owners of the land parcels.

As of 1 May 2014, the new wording of the Republic of Lithuania Provisional Law on the Acquisition of Agricultural Land (the “**PLAAL**”) entered into force, providing for the “safeguards” for land sale. Prior restrictions on the acquisition of agricultural land particularly restricted the freedom of activity of persons on the agricultural land market and when entering into sale and purchase deals.

The PLAAL provides for qualification and other requirements for persons seeking to acquire agricultural land or a legal entity

possessing such land. Individuals are subject to the professional skills and competence criterion, while legal persons must have been engaged in agricultural activities for at least 3 years, have declared their farmland and crops, must prove that their revenue from agricultural activities accounts for more than 50 per cent of their overall revenue and demonstrate their economic viability.

On 30 December 2014, the Government of the Republic of Lithuania submitted to the Seimas of the Republic of Lithuania a draft of the Law Amending Articles 1, 2 and 6 of the PLAAL (the “**Draft Law**”) the purpose of which is to create exceptions for credit institutions (banks and credit unions) in connection with their assumption of companies or their member shares, acquisition of land by farms in exercising the pre-emption right, and acquisition of common joint ownership of land by a farmer.

The Draft Law contains a provision that in case of transfer of a legal person who owns more than 10 ha of agricultural land or its shares (interests, member shares) into possession of a credit institution the PLAAL will not apply. Further, the Draft Law aims to determine that the acquirer of agricultural land in exercising the pre-emption right is not required to apply for a permit to acquire agricultural land to the local division of the National Land Service serving the area in which the land parcel is located.

Transactions of sale and purchase of securities

As of 1 January 2015, amendments to the procedure for entering into transactions in securities started to apply. The Seimas adopted the controversial amendments to the Republic of Lithuania Law on Companies and the Civil Code of the Republic of Lithuania requiring mandatory notarial certification for share purchase agreements of private limited liability companies involving the sale of 25 per cent or more shares in a private limited liability company or where the price of the sale shares is in excess of EUR 14,500.

The amendments are aimed at reducing the rate of fictitious and fraudulent deals in civil law. Notarised deals will help to ensure lawfulness of deals, because a notary public is an individual authorised by the State responsible for eliminating the possibility of unlawful deals and documents in civil legal relations.

The obligations to obtain notarial certification for share deals will certainly affect not only companies, but also the real estate

market. One of the biggest advantages of the arrangement that had existed before such amendments took effect was the possibility to conduct real estate transfer transactions as share deals instead of asset deals. The counterparties were able to agree freely on the desired terms of the deal and to avoid notary fees.

Currently the notary fee for notarial certification of transactions in securities is within the range from 0.4 to 0.5 per cent on the transfer price of the transferrable securities, but not less than EUR 14.48 and not more than EUR 5,792.40 (if one notarial act is performed to notarise a deal involving multiple transfers of shares in several companies, or multiple transfers of other types of securities, the notary fee may not exceed EUR 14,481).

Amendments to the Law on the Fundamentals of Free Economic Zones

As of 1 January 2015, amendments to the Law on the Fundamentals of Free Economic Zones entered into force, creating more favourable conditions for investors.

In accordance with the amendments, in the cases where a FEZ management company is not yet in place, territories of free economic zones (“FEZ”), except for land parcels intended for infrastructure, may be leased to investors. Later, when the land parcels within the FEZ territory are leased, in whole or in part, to the FEZ management company, the investors having become a FEZ company must be offered no less favourable terms of land lease than those that had existed before the land parcels within the FEZ territory were leased, in whole or in part, to the FEZ management company.

It is also provided that the structures and infrastructure facilities that are owned by the state (municipality) may be leased, given as loan for use or sold namely to the FEZ management company, which was not provided in the previous wording of the Law.

Amendments related to legislation governing public and private partnership

As of 1 January 2015, amendments to Government Resolution No. 1480 “Regarding Public and Private Partnership” took effect by which changes were introduced in

the rules for the preparation and implementation of PPP projects. The amendments are basically intended to address the main procedural problem areas of PPP project implementation – lengthy duration and slow progress, complicated, unclear and not smooth PPP procedures.

The amendments provide for involvement by the Central Project Management Agency (CPMA) and the Department of Statistics of Lithuania in the development of PPP projects and changes to PPP project development procedures. They also state that the implementation of a partnership project must be envisaged in the existing strategic action plans and/or inter-institutional action plans and/or municipal medium or short-term strategic planning documentation.

As of 1 January 2015, an amendment to the Republic of Lithuania Law on Investments will enter into force by virtue of which private entities will be entitled to initiate (propose implementing) public and private partnership projects as determined by the Government of the Republic of Lithuania, while authorised public sector authorities will have to make decisions regarding the proposed initiatives.

The amendments were adopted in the expectation that they will encourage business entities to take interest in the public infrastructure, to assess the opportunities for and benefits of investing in public infrastructure facilities, advantages of cooperation with the public sector, and to search for the most efficient PPP method in implementing projects.

Amendments to the Law on Immovable Property Tax

As of 1 January 2015, amendments to the Republic of Lithuania Law on Immovable Property Tax entered into force pursuant to which as of 1 January 2015 natural persons are subject to tax at a rate of 0.5 per cent.

Natural persons will be required to pay immovable property tax on the value of real properties owned by them which is in excess of the tax-free threshold of EUR 220,000. Meanwhile, families raising three and more children (adopted children) under the age of 18, and families raising a disabled child (adopted child) under the age of 18, as well as a disabled child above the age of 18 (adopted child) with special regular care needs, are eligible to a 30 per cent higher tax-free threshold of real property, i.e. EUR 286,000.

Amendments to the Law on Land

In accordance with the Republic of Lithuania Law on Land, the coefficients of the transitional period are applied to land tax, which is calculated on the market value. A 5-year transitional period is set for the calculation of the tax value of land. In 2014, the coefficient of 60 per cent of the value applied; for 2015 the same has been reduced to 40 per cent (20 per cent in 2016).

Currently the rate of land tax is determined by the councils of respective municipalities that enjoy the statutory power to select a rate ranging from 0.01 per cent to 4 per cent. Given the tax rates and the value of land will remain at the same level in 2015, payments towards land tax in 2015 will be higher.

Amendments to the Law on Value Added Tax

As of 1 January 2015, amendments to Art. 96, para. 1 of the Republic of Lithuania Law on Value Added Tax (the “**VAT Law**”) will enter into force. They are targeted at ensuring more efficient collection to the national budget of VAT charged on construction services and minimising the risk of non-payment of VAT overall.

Article 96 of the VAT Law has been supplemented with provisions that the purchaser of services who is a taxable person registered for VAT purposes, for whom construction operations are carried out on the basis of his order and who has been issued a document recording the operations carried out (services provided) **must withhold and pay to the budget VAT** calculated on the value of the construction operations (defined in the Republic of Lithuania Law on Construction as all operations carried out when building or demolishing a construction works (land digging, plastering, concrete work, installation work, foundations and roof erection, joinery work, exterior and interior finish, setting in motion and adjustment of equipment)) carried out for him by the service provider.

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KEY LEGAL REQUIREMENTS FOR REAL ESTATE DEALS

Acquisition of real estate

In real estate (RE) acquisitions two types of transactions prevail: *indirect*, i.e. share acquisition, and *direct*, i.e. asset acquisition. The former involves the acquisition not of a real estate item itself, but rather the shares of the company which owns the property. In the latter case the purchaser acquires the real estate itself as a property item under a sale and purchase agreement.

Prior to entering into a RE deal the parties normally conclude preliminary agreements and make other arrangements. Often, and this is particularly the case with high-value real estate deals, a RE deal has to pass through many stages before actual taking-over of property occurs.

Non-disclosure agreements: Under this type of agreements the parties commit not to disclose material aspects of the contemplated deal. Confidential information is one that is valuable in that it is unknown to others (financial, technical information, know-how, information about clients, etc.). Non-disclosure agreements are concluded to give assurance that negotiations will not be unexpectedly disrupted by the purchaser’s rival having offered better terms to the seller.

Letter of Intent: In the letter of intent the parties outline their intentions and set the main guidelines for the deal they intend to follow. Under a letter of intent the parties usually agree on exclusivity, i.e. an exclusive right to negotiate over the subject-matter of the deal over a certain period of time, and certain legal consequences ensuing from the failure to comply with the obligations under the letter of intent. Normally letters of intent do not have a binding effect.

Preliminary agreement: In practice the most common type of a preliminary arrangement is a preliminary agreement, which is intended to regulate the main aspects of the contemplated transaction: material conditions of the contemplated transaction and the timeframe for closing. In case of termination of the preliminary agreement liability is limited to liquidated damages (or damages objectively incurred due to

unfairly terminated negotiations), thus the limits of liability are quite clearly and narrowly defined. In order to secure a broader scope of obligations, it is advisable to file the preliminary agreement with the Real Property Register.

Due diligence review: When negotiations over the sale of RE are on-going, it is very important for the purchaser to conduct due diligence of the RE he intends to acquire before the deal is concluded. The types of due diligence are as follows: legal, tax, technical and commercial due diligence. Such due diligence reviews enable the purchaser to evaluate potential risks involved in the acquisition, financial, legal and tax condition of the property he intends to acquire.

Principal agreements: An indirect RE acquisition deal involves the acquisition of securities – the shares of the legal person who owns the RE. Where this type of transaction involves the sale of 25 per cent or more shares in a private limited liability company or is valued at more than EUR 14,500, it is subject to notarial certification. With direct RE acquisition deals notarial certification is mandatory at all times. In addition, the deal must stipulate the essential terms: the RE item constituting the subject-matter of the deal; the price of the deal (in case the price is not stipulated, the agreement is considered non-existent); the portion of transferrable rights to the RE item; energy efficiency of the RE item.

Registration of ownership: Once the RE deal is concluded, after signing of the principal contract or an additional document (deed of transfer) the acquirer of RE must register the title with the public registers.

Notary and register fees: The notary fee for a RE acquisition deal is 0.45 per cent of the RE price, but not less than EUR 28.96 and not more than EUR 5,792.40. Meanwhile, the fees for **registration of RE with the Real Property Register depend on and are calculated according to the average market value of the RE being sold.**

Lease of real estate

Requirements for RE lease agreements: RE lease agreements are subject to the following requirements: (i) the lease transaction must identify the subject-matter of the lease agreement and state the intended purpose of the leased property; (ii) the lease agreement must contain the lease period, which may not be longer than 100 years (if the lease period is not indicated, the lease agreement is considered to

be an indefinite term agreement); (iii) if the lease period is longer than one year, the lease agreement must be executed in writing.

Registration of a lease agreement: Although there is no statutory requirement for registration of lease agreements with the public registers, it is advisable to register them with the Real Estate Register in order to be able to invoke them against third parties. If title to the leased RE passes to a third party, the new owner must maintain the lease agreement only in case it is entered in the Real Estate Register.

Lease period and validity of the agreement: Lease agreements may be fixed term and indefinite term. In practice fixed term agreements are common, because the Civil Code provides that an indefinite term lease agreement may be terminated at any time during the lease period by serving notice thereof to the other party 3 months prior to termination (the lease agreement may provide for a longer notice period).

Beginning of the lease period and validity: The lease period starts to run from signing of the deed of transfer and acceptance of the leased RE and continues throughout the period of validity of the lease agreement, unless the parties agree otherwise in the lease agreement.

Extension of the lease period: The lease period is automatically extended for the duration of the entire period in which the tenant was prevented from occupying the leased RE due to indispensable major repairs. Also, if the tenant continues to occupy the leased RE for 10 days after the expiration of the lease period and the landlord does not take any steps to demonstrate that he intends to terminate the lease, the lease period becomes indefinite.

Tenant's right of first refusal: If the tenant does not breach the terms of the lease throughout the lease period, the tenant retains the right of first refusal for continued use of the RE.

Termination of the lease agreement: The term of the lease agreement expires on the date of its termination. The lease agreement may be terminated prematurely by the landlord if: (i) the tenant is using the RE not in accordance with the agreement or otherwise than for its intended purpose; (ii) the tenant impairs the condition of the RE intentionally or due to negligence; (iii) the tenant defaults on rent payments; (iv) the tenant does not carry out repairs, where he is obligated to do so. The lease agreement may be terminated prematurely by

the tenant if: (i) the landlord does not carry out repairs, where he is obligated to do so; (ii) the RE becomes unfit for use; (iii) the landlord fails to deliver possession of the RE to the tenant or prevents the use of the RE for its intended purpose and in accordance with the agreement; (iv) the RE made available for occupation has defects which render the use of the RE for its intended purpose and in line with the terms of the agreement impossible. The lease agreement may also provide for other grounds of termination.

Rent and rent calculation: The tenant normally pays the rent once per month together with all RE maintenance costs (including utility charges and other services). The Civil Code does not provide for a strict procedure for calculation of rent, so the parties may agree on any remuneration for the RE made available for occupation.

Indexation of rent: Usually the parties agree to review the rent on an annual basis having regard to changes in the Consumer Price Index, which is determined and publicly announced by the Department of Statistics of Lithuania. In accordance with the Civil Code, the rent may not be revised more than twice during a one-year period.

Taxes

Value added tax (VAT)

VAT at a standard rate of 21 per cent is chargeable on the sale or other transfer of new buildings, structures or parts thereof (a new building or structure is defined as an incomplete building or structure, as well as a complete building or structure for a period of 24 months after completion of construction or major improvement). VAT is also charged on the lease of immovables by nature other than residential premises.

Corporate income tax (CIT)

Proceeds of sale of real estate of a legal person registered in Lithuania are subject to corporate income tax of 15 per cent.

Personal income tax (PIT)

PIT at a rate of 15 per cent is applicable on income received by residents of Lithuania and non-residents of Lithuania who pay PIT on income sourced in Lithuania. PIT is calculated and paid on all receipts of income, save for the exceptions specified in the PIT Law.

Immovable property tax (IPT)

IPT is charged on immovable property owned by natural and legal persons, except immovable property that is not actually occupied, incomplete construction property, and property developed or acquired on a basis of public and private partnership, as long as the partnership agreement is implemented.

IPT, which may range from 0.3 to 3 per cent, is determined on the municipal level against certain criteria (e.g. designated purpose, use, legal status and technical specifications of immovable property, etc.). IPT is paid on the tax value of immovable property, which is determined using mass valuation or individual valuation methods.

As of 1 January 2015, the amount of the aggregate value of RE items owned or acquired by natural persons which is in excess of EUR 220,000 is subject to immovable property tax at a rate of 0.5 per cent. Certain families are eligible to a 30 per cent higher tax-free threshold for RE, i.e. EUR 286,000.

Land tax

Land tax, which may range from 0.01 to 4 per cent on the tax value of land, is determined at the municipal level. Land tax is paid on land privately owned by natural and legal persons (except forest land and forestry land bearing forest growth).

The tax value of land is determined using mass valuation or individual valuation methods. A 5-year transitional period is set for the calculation of the tax value of land. In 2014, the coefficient of 60 per cent of the value applied; for 2015 the same has been reduced to 40 per cent (20 per cent in 2016).

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Simona Oliškevičiūtė-Cicėnienė has over 14 years of experience advising local and international companies, private equity funds, as well as the Government of the Republic of Lithuania on strategic national projects, mergers & acquisitions, joint ventures, reorganisations and other sophisticated transactions.

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ABOUT COMPANIES / CONTACTS

INREAL GROUP



JSC "Inreal GEO", JSC "Inreal valdymas" and JSC "Inreal" , provides probably the widest spectrum of services in Lithuania, related to real estate. Inreal group companies belong to SC "Invalda privatus kapitalas". About 90 employees are currently working in Inreal group; mediations in lease or sale of more than 550 thousand sq.m of commercial premises, over 550 residential housing objects, and over 300 land plots. The company mediates in 50 residential housing projects, 24 investment projects, or their portfolios. More than 4,900 valuation reports and about 80 consultations (feasibility studies, investment memorandums, and market research) are being drawn up annually. The value of asset of valuation is above 2.5 milliard Lit. Company offices or representations are operating in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Mažeikiai, Alytus, Plungė and Utena. Currently JSC "Inreal Valdymas" develops two real estate projects: houses in Nida "Kopų vetrunges" ("Dunes weathervanes"; „Kopų vetrungės“) and apartments and commercial premises in Klaipėda oldtown "Danes uzutekis" ("Danes Bay"; „Danės užutėkis“).

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„Raidla Lejins & Norcouis law offices in Lithuania, Latvia, Estonia and Belarus are the leaders of pan-Baltic legal practice with 120 attorneys. They render comprehensive legal services to national, regional and international legal entities, including multinational enterprises, banks and financial institutions. Raidla Lejins & Norcouis' expertise is consistently ranked in the top tier by the most prestigious legal research directories, such as Chambers Global, Chambers Europe, Legal 500, IFLR 1000 and others. According to Mergermarket, one of the most influential and reputable mergers and acquisitions (M&A) market research directory, in 2014 the law offices Raidla Lejins & Norcouis was the leading legal adviser by the number of M&A transactions advised in Lithuania.

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